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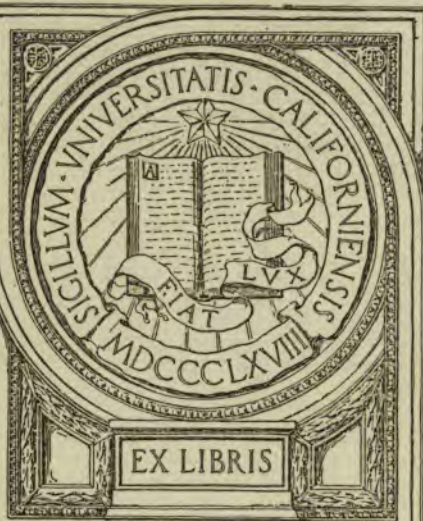
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Constructive Economics

(Second Supplement to Book SOLUTION)

By

PAUL G. LEWIS

A new text book for Statesmen and Students pointing
out and correcting Fundamental errors in
Theories relating to Economics.

UNIV. OF
CALIFORNIA

SOLUTION and First Supplement . . .	\$4.00
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1920

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TO THE
AUTHOR

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**First Principles of Political Economy (1879) by
Prof. Wm. D. Wilson of the Cornell University.**

Page 20—".....there is an almost endless diversity of opinions among writers on the subject, and so much of diversity and uncertainty is there in their teaching that the doctrines of the schools and the professed teachers of Political Economy have been found of very little value by practical men, and a very unsafe guide to statesmen, financiers, and business men generally."

Page 23—"Of all the branches of knowledge that lay claim to be considered as sciences, there is no one perhaps that is less settled in the definitions of its terms, and the acceptance of any general first principles, than Political Economy."

To raise Political Economy to the dignity of a science by presenting general first principles, and also to bring it within the scope of "economy" as distinguished from principles of "extravagance" in existence and practical operation—is the aim and object of this work.

Paul G. Lewis.

SPECIAL NOTICE.

This publication called Constructive Economics, is the second Supplement to the book SOLUTION, published in June, 1919, whereof the first Supplement was issued in October of the same year.

That book presents the philosophy of Finance, Banking and Money in an elementary manner. It points out and explains the fictions in Finance and Banking. It contains an analysis of the monetary conditions and operations. It treats on the different kinds of money showing the various standards of value and that of "debt" in their evolution and in use today in the United States. It discloses the imminent and urgent need of a remedy relating to a new standard of value for money. It presents a new standard of value.

The "standard of value" whatever it may be will in time be recognized as that pivotal point or that creative cause upon which depends all good or evil according to the character thereof.

The purposes of these Supplements, issued from time to time, are to amplify with more detailed explanations the general principles embodied in the parent book.

Paul G. Lewis.

INTRODUCTION.

The industrial achievements of the last 100 years were attained by means of new knowledge presented by inventors.

In the proportion and to the extent that inventions of merit received proper recognition, to that same extent was society benefited. This was merely a demonstration of a natural law that something of superior merit always displaced others of inferior merit. It was in short the law of the "Survival of the Fittest by natural selection during the Struggles for Existence."

In the operation of this natural law in the industrial realm there was always a deliberate but peaceful competition which inventions instituted upon their adoption.

This same principle, exemplified in the industrial achievements, must form our basis for political, social, financial and moral progress.

Violent or sudden changes are therefore destructive of orderly and permanent progress.

With this natural law in mind I have presented an economic remedy which in no way interferes or opposes the system at work; on the contrary it seeks to strengthen such system primarily and thereafter render services for gradual correction of errors.

The remedy therefore displaces no custom, no regulation, and no rule of conduct in and by its adoption, but simply adds another rule to those already in existence; and if the application of this remedy after adoption proves to possess superior merit, then as a natural consequence other inferior customs, rules and regulations will gradually diminish in their importance and finally disappear.

Paul G. Lewis.

PART I.

MONEY MUST BE BASED ON VALUE.**(Comparative Investigations.)***(To be read in connection with first supplement, pages 10 to 12.)*

There is not a single human activity in all the world requiring physical force, including also every known substance and instrument whereof all of the foregoing used as a "means" to accomplish an end, are not based upon or do not possess something of inherent value.

In the case of physical force it is the energy exerted used as a "means" which is of great inherent value, be this means either of man, animal, water, steam, electric or gas power.

In the case of substances or instruments used in connection with the foregoing as a "further means," each must nevertheless possess an inherent value to accomplish the purposes of their use.

Glue is used as a means because of its inherent value.

Nails are used as a means because of their inherent value.

A hammer is used as a means because of its inherent value.

A knife is used as a means because of its inherent value.

Clothes and all other wearing apparel are used as a means of protection or for appearance because of their inherent value.

Food is used as a means of sustaining life because of its inherent value.

Shelter is used as a means of protecting man and his possessions because of its inherent value.

Theatres, actors, movies and music are used as a means of furnishing pleasure, amusement and entertainment because of their inherent value.

Water, air, gas, soil, temperature, etc., in fact everything on earth organic or inorganic, solid, liquid or gaseous used as a means, must possess something of inherent value.

It is the inherent value and that alone which classifies everything fit or unfit as a "means" for use. The inherent value of a thing constitutes the very beginning and foundation upon which rests its usefulness as a means of employing it.

MORAL.

Only the inherent or natural value of everything determines its qualifications for use as a "means" of procuring or producing desired results.

This fundamental law of nature applies not only to everything above stated but gives for our guidance that unfailingly sound principle which should be applied to every "means" used in the operation of our social, financial, industrial and political intercourse—national or international.

The only exception in all the world to this fundamental law of nature is the uncompromising philosopher who claims that a national circulating medium used as a "means" for effecting exchanges of commodities, should not be based upon a "standard of value."

The very historical record of the evolution of money in the United States from the beads of Indians to the gold and silver certificates, contradicts and upsets the theory of the Greenbacker.

A national medium of exchange should be based upon and be representative of something of inherent value even as the warehouse receipt centuries ago represented the money value of the cotton, rice, tea, sugar, tobacco, etc., stored in the warehouse, or the Circulating Notes of the colonial banks, represented the speculative money-value of lands in the wilderness, and finally the gold and silver certificates still represent the money-value of the gold and silver coin deposited in the U. S. Treasury.

In like manner the Labor Certificate when paid out by the government would represent the money-value of labor "already performed" for the government.

The Labor Certificate used as a means would therefore be based upon something of the greatest value and of the greatest necessity to the welfare of a nation and its people in times of peace or war.

The Greenbacker having thus isolated himself in the science of monetary philosophy by invoking the aid of a principle with reference to "means" which is absolutely opposed to all known operative laws of nature and contrary to the common experiences of man—the burden of proof therefore rests upon him who alleges that a national medium of exchange should not be based upon a "standard of value" or a standard of debt.

Of course the Greenbacker, like all others, expects to exchange his Fiat money only for something else possessing inherent value—but that is giving something of no value (except the paper and ink of the greenback) for something else of intrinsic value. The Greenbacker wants to get something of value for his piece of paper which represents nothing; in short, he wants to get something for nothing.

Man has never been able to do that except in cases of fraud. Organic and inorganic nature (except man) cannot do that—the mechanical laws of nature preclude fraud.

I would therefore be more than pleased to receive from any source any statement of a fact in operation anywhere, pointing out a single instance of lawful human activity in any realm where any kind of a "means" is not based upon something possessing inherent value.

The only possible and similar instances which are not based upon inherent values, are those of fraud, such as the Fiat certificates of health, Fiat certificates of education, Fiat certificates of character, mentioned and fully discussed in the 1st Supplement to the book SOLUTION on pages 10 to 12.

Let us not inject or introduce the element of fraud into our money for we already have enough legitimate troubles embarrassing our economic situation and condition arising out of a money based on the gold standard of value, as well as all such based on the interest bearing standard of debt.

MORAL.

Every known "means" used in every lawful human activity from the most inferior to the most superior, is based upon or represents an inherent value, ranging respectively with the degree and character of the means.

With reference to production,—labor is the highest means known to man.

MORAL.

With reference to distribution, money is the highest means known to man.

A national medium of exchange being a "means" of the very highest type, possessing the widest range of circulation and universal application, demands a standard of value which in its supremacy must tower above all other known values on earth; "labor" and that alone with its wages can meet this requirement.

Money is the "one means" whereof there is no equal. It is so extensive in its use and operations that everything of natural value for man or beast comes within its range. It has and knows no limitations in human affairs. All other known means operate within "narrow" limits whereof their boundaries are definitely prescribed by reason of their natural fitness easily recognized.

Again, every material means of inherent value is the product of two other means, namely, the labor of man and the elementary creations or productions of nature; and these other two means must be essentially qualified and adapted in and by their very nature to bring forth the desired products for human use.

Glue is a product of labor (a means) and material
 (a means)
 Nails are a product of labor (a means) and material
 (a means)
 A hammer is the product of labor (a means) and ma-
 terial (a means)
 A knife is the product of labor (a means) and ma-
 terial (a means)
 Clothes are the product of labor (a means) and ma-
 terial (a means)
 Food is the product of labor (a means) and material
 (a means)
 Shelter is the product of labor (a means) and ma-
 terial (a means)
 Schools, etc., are operated by labor (a means) and
 material (a means)
 Theatres are operated by labor (a means) and ma-
 terial (a means)

All material means primarily embrace the creations or productions of nature, such as stone in quarries, mineral in ore bodies, coal in deposits, timber in forests, etc., etc.—these consist of natural values in their natural state or places.

The other means requires the labor of man working as a creator on earth to bring forth from the elementary material means, the finished products to be used as an ultimate means of supplying human wants.

Human labor is the "working-creative-cause" between nature's crude products and man's finished products.

It is the labor of man which transforms or removes the elementary but otherwise useless creations of nature by making these fit for ready use.

Labor is the creative cause which applied to nature's creations produces the desired results—the fruits of both (labor combined with material) for human use.

Universal experience teaches us that a cause is of greater moment than its result. Every result is in its entirety merely the end, the answer, the harvest of a working cause. The cause of everything determines the result or effect. Every cause in action operates as a "creator" whereas the effect is the mere mathematical and mechanical result.

By employing a cause we bring forth results.

By controlling a cause we direct the accomplishment of a definite result.

By removing a cause we avert an undesirable or bad result.

Knowledge relating to a "cause" is therefore most essential—in fact an indispensable factor for progress.

Labor as a cause is the most productive means of "all means," for it is this which distinguishes us from our ancient cave men.

Money as a cause is the most distributive means of "all means" for it classifies its people into princes and paupers.

Even as labor as a means requires the best of special material in order to bring forth the best of special products—so money, being the highest of all means in relation to distribution, should be based upon national labor.

Whenever this law of the "highest grade" so universally applied to all products, will be applied also to money, then the results will be astonishing in its production of national health, national wealth and national happiness.

Money as a finished product of man should, like all other means in order to be right, be also based upon two other means.

The present national mediums of exchange so far as these relate to paper, ink and printing answer admirably the requirements of a circulating medium, but their "standard" (value and debt) has not yet been raised to the lofty heights and dignity to which money of the highest type is entitled. We still consider inert inorganic gold, a finished product, more valuable than the eternal labor of man in constant co-operation with nature, without which present humanity would not be able to live.

National welfare in its supremacy, always overshadows individual welfare so that labor performed for individuals could not be used as a standard of value for money, even as a national medium of exchange, could not again be made by individuals. Some day there will be philosophers wise enough to understand the necessary error committed against the people of a nation by the use of "made to order" money (checks) which are used as a medium of exchange in competition with national mediums. In other words, whereas it should be the exclusive function of the government to furnish all necessary mediums of exchange, yet most of the people make their own mediums of exchange whenever they draw their checks against banks, and with these discharge all their obligations.

REDEMPTION OF FIAT MONEY CONSIDERED.

The following is an answer to the views of those who claim that a national medium of exchange put into circulation should not be based on a standard of value, but should be based on a non-interest bearing standard of debt, and be considered a liability of the government or nation.

It is contended by these philosophers on the money question, that a return of such mediums to the government as by a payment of taxes, debts or other obligations, would constitute a "redemption."

Evidently these particular philosophers have never pictured a condition under national ownership wherein and where-by "taxes, debts or financial obligations other than wages,

would be an impossibility." They have not yet appreciated that taxes, debts and profits, as well as all artificial burdens are "PENALTIES" which are imposed, exacted and necessary as a payment for our ignorance in not having worked out a system of Political "Economy" from our system of Political "Extravagance." According to this theory, no nation would ever get out of debt.

A national medium of exchange cannot be considered as redeemed simply because the same is returned to the government. The bare act of returning cannot be construed as a redemption.

Redemption is an independent feature injected into a national medium of exchange, such as in the gold and silver certificates; and unless specifically embodied in a medium of exchange it (redemption) must be entirely eliminated from all consideration at all times no matter when, how or where the circulation of such medium begins or ends.

A gold or silver certificate is by no means redeemed, simply because such is returned to the government in payment of taxes, debts or other obligations.

A redemption requires the performance of the obligation contained in the certificate; so that any circulation even though ending by a return thereof to the government, in no manner complies with or satisfies the requirements of redemption.

To effect a redemption requires the removal of coin from the U. S. Treasury, and the cancellation or destruction of such certificate.

The government therefore redeems nothing, nor does it agree to redeem anything unless it has specifically agreed to do so in the medium of exchange.

Any national medium of exchange which the government receives for taxes due, etc., constitutes merely an exchange of an obligation for a "means" issued and used by the government for that and other national purposes. Such a return to the government cannot be considered a redemption of such medium of exchange, but is merely an act of exchanging a medium of exchange for a tax, debt or other obligation.

It is the government's duty to furnish national mediums of exchange, and this medium of exchange should operate merely as a "means" of enabling the public as well as the government to effect exchanges anywhere of everything within the nation; and these, as all other means, should in the realm of finance be likewise based on something of inherent value and not a debt—not a minus quantity, not on something which is less than nothing.

Even in common parlance a note is not redeemed when paid, but cancelled and returned. Only the property pledged or mortgaged to secure such note is subject to redemption.

Payment of a note constitutes a cause; it comes first; redemption of property comes next or follows as a result or effect of such payment. A "cause" is by no means the same as its "effect."

Redemption always relates to property having or possessing inherent value; no payment—no redemption.

The most that can be said in answer to the contending philosopher is that his medium of exchange would be nothing other than a first-class Fiat money; and that his claim of liability and redemption arises purely in his own mind from his misunderstanding of the functions of money, and his improper use and application of the term redemption.

The liability of the government for services rendered by an employee for periods between the payments of wages, establishes the relationship of debtor and creditor wherein the government is the debtor and the employee is the creditor.

Governments have always discharged their debts to their employees in that kind of money which was then in use. Gold has always been considered the best kind of money; and it was only due to its great scarcity that Circulating Notes (promises to pay) were forced upon the public for their use.

Here we have two elements for our consideration, namely, the one which relates to the government's debt—the other which relates to the government's duty to furnish the best kind of money possible wherewith to pay this debt.

For many years individuals have waived among themselves the character of money in use wherewith to pay debts, but the same individuals have never for a single instance waived a single debt, on the contrary these have insisted each time upon its payment no matter how inferior or how bad the character of the money in use might have been. The very worst kind of money has always been considered good enough by the public to give or receive such in payment of a debt.

The debt whether of the government, or whether existing among individuals of the nation, such debt always attaches to some person, but the means (medium of exchange) used to discharge such debt embraces something inorganic.

The debt or liability of the government or of an individual is one thing, it relates to a person, whereas the means used to discharge such debt or liability is another thing, it relates to inorganic matter (medium of exchange).

There is, therefore, a vast difference between a debt and a medium of exchange. The debt is the result, the end, or the effect which arises out of a certain contractual agreement.

A medium of exchange is a means which arises out of legislative enactments to be used for the satisfaction of debts.

To say that a "medium of exchange" which is used as a means, should be considered as or based upon the debt of

the nation, is to offer for violation all natural laws relating to "means." Every known material means is based upon something of value and in existence, something concrete—and not upon a promise of something, upon a debt, upon something abstract.

Surely gold and silver coins are vastly more valuable as a medium of exchange than debts. Gold and silver coins constitute an asset of the nation—debts are obligations to be discharged. A debt or obligation cannot discharge itself.

In further illustration and in conclusion it might be said that from the time an infant opens his eyes to behold the world, he receives food, shelter, clothing, and for a long time constant care and attention.

Later he receives, in addition to the above, a goodly amount of training and education, at the same time receiving and enjoying the inestimable benefits and comforts to be derived from all achievements operating in our social, political and industrial activities.

The infant receives his physical and intellectual development from both his home and more largely from society for no other purpose than to qualify him at a later and proper time to enter actively upon the duties of life and assume those responsibilities which the progress of society demands from every qualified individual.

If, therefore, a young man, who has become duly and truly prepared and is worthy and well qualified, renders a day's labor for the government (nation), he is simply discharging his moral obligation toward society.

The government should not furnish him with a medium of exchange which is based upon the indebtedness of the nation for his services, but a medium of exchange (Labor Certificates) based upon his own labor, the product whereof constitutes an exclusive asset of the nation, free of all national liens and incumbrances, free from all national taxes, free from all national debts or demands.

Most states give mechanics, laborers and material men a lien upon the building erected, as security for any non-payment of labor performed and material furnished—thereby placing a higher natural value upon labor and material, than upon the mere abstract liability or debt of the owner of such building.

In like manner, if the government were to construct buildings, waterways, or make other needful national improvements, it would be infinitely more logical to have its money based upon their creators (labor) which brings forth visible assets, than to have such money based upon the liability of the government or nation.

The government, as the agent of the debtor nation, is expected to furnish only the "means" of exchange, and such

as at present may logically and rightfully be based on a standard of debt whenever there is not sufficient gold available for the purpose of satisfying that false standard of value, until the government at a later time embraces a true standard of value (labor and wages thereof) which will be more than ample to fill and satisfy all requirements of a money of the highest type.

Surely the best can be none too good for us even though the inestimable value of Labor Certificates may not be appreciated or recognized at an early date. Necessity and sad experiences will be the price demanded to drive us to their use.

I might add here that the young man who throughout his life continually receives from either his parents or more largely from society (cutting interest coupons) is a parasite who when he dies leaves the world in infamous shame and disgrace as an unliquidated moral debtor to society; and for this reason he has been called the compliment of the tramp, because neither pay their moral obligations and debts to society.

Neither contribute a single thing or activity either for the maintenance or toward the progress of society—these live exclusively for themselves at the expense and to the detriment of society.

The history of the world has never perpetuated the name of a coupon cutter or a roaming tramp; both are dead to all the world at all times; both live entirely for themselves, therefore these after their death leave no one to mourn except those few if any related by consanguinity.

MORAL.

Every man owes a living (his labor) to society, and he should ever have the opportunity of paying this moral debt. If he does this or is unable or denied the opportunity, then SOCIETY OWES HIM, and in case of his death then to his dependents, A LIVING.

If he does not pay this moral debt, although able if he would, then SOCIETY OWES HIM NOTHING, and he thereupon continuously robs society of that which he has not earned.

From all that has been said upon the subject of money it must be apparent that money must be based upon something possessing inherent value, and in addition thereto such value must possess the qualifications of meeting the requirements exacted from every standard; while the duties of a standard relate to its ability of serving as a unit for measuring and determining exchange values of commodities. A medium of exchange can best be based upon a standard of value which possesses the above mentioned measuring properties and qualities.

SUMMARY AS TO MEANS.

1. That every material means must be composed of or based upon something of inherent value.
2. That every material means is the product of two other means, namely, labor (intellectual and physical) and material combined.
3. That money by its very function and nature occupies the highest station in the realm of means because of its widest universality and greatest adaptability.
4. That the highest means requires and demands for its foundation and basis, something of the highest value known to man.
5. That labor in all its phases acting as a creator and working with nature's creations brings forth everything which supplies man with all needs and wants; and such labor is therefore of the highest value among all known means.
6. That any money, a physical means for effecting exchanges, whether based upon a liability of the nation or the fiat of the nation, such money constitutes a gross violation of all natural laws in relation to every other physical or material means, and constitutes also a violation of all such human laws where bona fide certificates of whatever character are issued and used.
7. That money based upon labor and the wages of labor can be the only money which possesses the power of measuring exchange values, hence be the only money based upon a true operative standard of value.

N. B.:—Only the government could issue this kind of money based upon labor and its wages.

PART II.

MORALS AS TO PRODUCTION AND DISTRIBUTION.

1. That it is labor (the most important of all "means") which produces all commodities.
2. That it is labor (the most important of all "means") which transports all commodities.
3. That it is labor (the most important of all "means") which distributes all commodities.

LANGUAGE OF WEIGHTS AND MEASURES.

The language of weights and measures requires the use of numbers or figures of mathematics.

This language requires also a theoretical or abstract unit such as the pound, the pint, the peck, the foot, the yard, the ton, etc.

If these theoretical or abstract units were permitted to be used by the public in accordance with their own interpretation, or as might be said, used and placed upon standards of their own selection—then we would have the same results with reference to weights and measures as we have in exchange values.

Each retailer would be the judge of how much constituted a pound, pint, peck, foot, yard, or ton. In such case the pound, pint, peck, foot, yard, or ton would fluctuate, slip, slide, and be as uncertain in quantity as the theoretical dollar.

The fact that all theoretical units in the language of weights and measures have been by governmental regulation nailed down, fastened definitely and fixed permanently upon physical instruments, deprives every individual of the right to tamper, interfere, or in any manner meddle with the standards of weights and measures.

In the field of standards all theoretical units have been captured and are controlled by the government except the theoretical dollar which is still roaming around at large until some day the government officials will awaken to the fact that such dollar, like all other theoretical units will have to be captured and controlled by them. With reference to weights and measurements we have universal harmony; with reference to exchange values we have competitive chaos and discord.

THE LANGUAGE OF MONEY.

Exchange values require a language—a money-language. This money-language is composed of four factors.

1. The use of numbers or figures of mathematics.
2. The use of a money "unit" called the dollar.
3. The use of a "standard" for that dollar which

standard should be capable of performing the functions of measuring values.

4. The use of an instrument (medium of exchange) representing multiples or fractions of the dollar, expressing or representing measurements performed by the standard of value.

STANDARDS OF MEASUREMENTS.

There are two kinds of standards, namely, standards which measure objects, or matter relatively at rest with reference to the earth's motion, and other standards which measure the changing effects of objects, or matter, or force, while in a variable motion with reference to the earth.

To the first mentioned standards belong the footrule, pint measure, pound weight, etc., etc., which are applied to objects or matter relatively at rest at the time a particular standard is applied.

To the other standards belong the thermometers, barometers, speedometers, clocks, meters of all kinds, etc., etc., which are each applied to objects, or matter, or forces, while these are each in a variable motion with respect to the earth.

It is apparent that a standard such as the footrule cannot be used or applied to objects, matter or forces in motion, and vice versa.

All objects or matter to be measured when at rest require instruments which in their measuring powers are fixed and remain fixed.

All objects, matter or forces in motion cannot be measured by instruments which are fixed in their measuring powers, but such require other instruments which are themselves capable of assuming motions running parallel; so that with reference to these parallel motions these instruments of measurements may be said to be at equilibrium with the objects, matter or forces to be measured. The measurements produced record the variations upon a fixed surface, dial or face.

The period of production of a commodity may be considered the period of its development, the period of its growth from raw material to its finished product; it is raw material put into evolution, into motion by means of "labor."

The time and extent of the development and growth of a finished commodity from its raw material depends exclusively upon labor.

Labor and its time are the prime factors in producing a finished product. Labor and time run parallel with the growth or degree of progress made between raw material and the finished product.

Labor is the cause—the finished product constitutes the result or effect. The natural value as well as the money-value of an article is constantly being increased by labor and its

wages during the process of its manufacture from raw material to its finished condition.

It must be evident from the foregoing statement of facts that a standard of value whose function it should be to measure the exchange value of a commodity, cannot be based upon anything which is relatively at rest with reference to the earth, when as a matter of fact the process of manufacturing is opposed to all rest, for such manufacturing requires work; and work embraces motion of man and material.

A standard belonging to the class of the footrule, pint measure or pound weight etc., or any commodity, substance or matter, such as gold, etc., relatively at rest, could not therefore serve as a standard of value.

A standard of value which is to serve as an instrument for measuring exchange values must, therefore, belong to the class of standards which are in relative motion running parallel with the thing to be measured.

A standard of value belongs in the class of thermometers, barometers, speedometers, clocks, meters of all kinds, etc., etc.

Labor and its wages are the only factors in existence which run parallel with the period of production.

Nothing would, therefore, be in greater harmony and accord with reference to measuring money-values than to take the wages of labor expended during production. The following topics will consider money and its proposed standard from various views and angles.

POWERS AND PROPERTIES OF MONEY.

Money of today does not measure exchange values of commodities, neither did any money of the past ever perform such a service. The term money as used here and elsewhere in this work always embraces its two elements, namely, the medium of exchange and the standard of value. The reason that money never performed measuring functions is due wholly to the fact that its standard of value has never rested or been based upon anything possessing measuring powers or properties. The measuring functions of money belong exclusively to its standard of value; whereas its medium of exchange can serve only as expressions of measurements, or in other words, be merely representative of measurements. It is, therefore, immaterial whether a medium of exchange is composed of paper or metal or any other material; such medium acquires no measuring powers by reason of any special substance out of which it might be made. The function of a medium of exchange is not altered when a gold or silver certificate based upon the coins in the U. S. Treasury is redeemed and the coins assume the function of circulating as a medium of exchange.

Whether the coins are in the U. S. Treasury, or whether

such coins are in circulation, in neither instance do they possess measuring powers.

There is a vast difference between instruments which "measure" and other instruments which serve merely to "express or represent" measurements.

The foregoing statement is of the greatest importance because it is a most "fundamental law." Failure to fully understand this fundamental law precludes the knowledge of the fact that all mediums of exchange are incapable of measuring the money-value of anything, but merely serve the purposes of enabling exchanges, whereof the things, objects or material exchanged were measured by the vendor in terms of money by the use of instruments, other than gold or silver.

The medium of exchange takes no part in these measurements, and neither does the gold which today is looked upon as the standard of value for our money.

Suppose a lumber retailer informs us that a certain board 12 inches wide sells at 5c per running foot; in order to arrive at the exchange value of that board it would be necessary to measure its length. For each foot measured let us set aside a celluloid chip, so that when the measurements have been completed we find that we have set aside 12 chips. These chips serve merely the purpose of expressing or representing measurements, both as to length and money-value.

The chips do not perform the functions of measuring—that duty devolves upon the footrule whenever the dealer has established the selling price of the unit (foot).

If the chips made of celluloid are not able to measure the length and the exchange value of the board, neither can chips made of lead, copper, silver, gold, or any other metal or substance do otherwise.

Instead of using chips to represent measurements we do in fact use pencil marks upon figuring pads because of their greater convenience.

The pencil marks likewise merely represent or express measurements.

If we had metal chips of different denominations and value such as 1c, 2c, 5c, 10c, etc., etc., up to \$5.00, and we had set aside chips each of the value of 5c, then each chip in that case would have equalled the selling price of the board per foot, but such chips would still have been merely expressions of measurements; and in no instance could measuring powers or properties have been accorded to these chips.

The inherent value of the chips like the pencil marks are not taken into consideration because their functions are entirely and exclusively of a representative character, so that chips ranging from little or no value up to and exceeding \$5.00 would in no way partake of measuring functions.

The dealer himself had set the selling price of the board at 5c per running foot. He established the selling price for the "unit" (foot) of lumber, and then he used the footrule to determine the number of units in that board; so that when the measurements had been completed he had not only ascertained the length, but also the selling value of the board.

The dealer in establishing the exchange value for the unit of lumber employs many instruments of which the following are the most usual and important. Each of these instruments measures its quota which is to be represented in the exchange value of the unit just as the footrule has its proper use and service. The cost price forms the foundation upon which the dealer begins to construct or build up his selling price per unit. With this cost price as his foundation he uses the following named instruments in terms of money:

- Interest on the investment of capital
- Freight
- Drayage
- Rent
- Labor
- Insurance
- Taxes
- Interest on debts
- Office expense
- Advertising
- Salesmen and solicitors
- Light, heat and power
- Operating expenses, teams trucks
- Repairs
- Depreciation of buildings, etc.
- Profit

The foregoing and in some instances many more factors enter into the computation of exchange values. The foregoing are instruments which the dealer uses to measure in terms of money the exchange value of his lumber per unit. It is not the money which we have in use which measures, but the aforementioned instruments expressed in the language of money which do the measuring. The medium of exchange and its assumed standard of value (gold), given in exchange for something else, are nothing other than mere numerical equivalents covering sums of money whereof the amounts are determined by instruments other than gold or silver. Every one of the foregoing instruments becomes each a standard of value in the hands of the vendor. These are the economic standards which are actually at work, while the standard of value adopted by the government, is unable to perform a single measuring function.

There is an irreconcilable breach between the statements of economists about the functions of money, and the actual practice of money found in operation in the economic field of

society. The economist proclaims that money measures values by virtue of its standard of value (gold), but the vendors measure values by dozens of standards none of which relate to gold.

The fact that money is not based upon a standard of value which possesses measuring powers or qualities is the very reason that there are in actual use a great many and variety of standards each rendering its share of service in the computation of selling prices. Every standard so used constitutes a burden. For the sake of simplicity we may consider burdens to be composed of two kinds: One which in this work is called a "natural" burden, while the other is named "artificial" burden.

All kinds of labor, whether intellectual or physical, is classed as a natural burden, whereas all other instruments fall within the class of artificial burdens.

For the sake of simplicity we may place all artificial burdens under three headings, namely: Int. on Capital (investment), Overhead expenses, and Profit.

In order that some practical view may be obtained from the real economics at work within our nation, the following Tables are presented showing the various factors which enter into computation of exchange values; and these will each be reclassified so as to bring them within the two burdens of natural and artificial.

For many years the steel industry has been looked upon as the financial barometer for all commodities, so that in this selection we behold a most important industry. The Tables, presented for study were compiled by the commission of corporations, and cover a period of five years from 1902 to 1906; and were published May 6, 1913. These Tables cover a period of time which may be looked upon as being industrially normal, so that they form a better guide than such as might be compiled covering the present most unusual economic conditions.

Table No. 3 relates to book cost of Lake Ore

Table No. 18 relates to book cost of Bessemer Pig Iron

Table No. 29 relates to book cost of B. B. Ingots

Table No. 40 relates to book cost of L. B. Billets

Table No. 67 relates to book cost of Structural Shapes

Report of Commissioner of Corporations on the Steel Industry, Part 3, Cost of Production. Published May 6, 1913. Page 34, Table 3—Average Book Cost of Lake Ore Delivered at Lower Lake Ports 1902-1906 in Dollars per Gross Ton:

	Average 5 years
LABOR	\$0.45
Supplies	.17
Repairs	.02
Expense	.03
Depreciation and stripping	.15
Royalty	.95
Rail freight	.77
Lake freight	.74
General expense	.06
Taxes	.05
Depreciation	.05
PROFIT (page 53, Table 10)	.66

Sale price (page 53, Table 10).....\$3.30

A reclassification of the foregoing items to suit the purposes of this work is given as follows:

Int. on Capital (royalty, etc.)	\$0.40
Overhead expense	1.79
Profits	.66
Labor	.45

Burdens imposed on ore.....\$3.30

Page 86, Table 18—Average Book Cost of Bessemer Pig Iron 1902-1906 in Dollars per Gross Ton:

	Average 5 years
Net metallic mixture	\$7.30
Coke	\$3.89
Limestone	.43
LABOR	.77
Steam	.12
Materials in repair and maintenance	.16
Supplies and tools	.13
Miscellaneous and general works expense	.26
Relining and renewals	.18
Contingent fund	.02
General and miscellaneous	.36
Depreciation	.39
PROFIT (page 125, Table 27)	.86

Sale price (Table 27).....\$14.87

A reclassification of the above items to suit the purposes of this work is given as follows:

Int. on Capital	\$0.39
Overhead expense	5.55
Profits	.86
Labor	.77

Burdens imposed on pig iron.....\$7.57

Page 136, Table 29—Average Book Cost of Bessemer Billet Ingots, 1902 to 1906, in Dollars per Gross Ton:

	Average 5 years
Pig iron and scrap	\$14.88
Manganese	\$0.31
Limestone	.02
LABOR	.57
Fuel	.24
Steam	.15
Molds and tools	.15
Materials in repairs and maintenance	.09
Supplies and tools	.10
Miscellaneous and general works expense	.13
General and miscellaneous expense	.46
Depreciation	.46
PROFIT (Table 39)	.84

Sale Price.....\$18.40

A reclassification of the foregoing items to suit the purposes of this work is given as follows:

Int. on Capital.....	\$0.46
Overhead expense	1.65
Profit	.84
Labor	.57

Burdens imposed on B. B. Ing.....\$3.52

Page 180, Table 40—Average Book Cost of Large Bessemer Billets, 1902 to 1906, in Dollars per Gross Ton:

		Average 5 years
Ingot		\$17.72
LABOR	\$0.55	
Fuel	.10	
Steam	.32	
Rolls	.03	
Materials in repairs and maintenance.....	.17	
Supplies and tools.....	.06	
Miscellaneous and general works expense.....	.14	
General and miscellaneous expense.....	.55	
Depreciation	.54	
PROFIT (Table 40).....	1.77	4.23
Sale price L. B. Billets.....		\$21.95

A reclassification of the foregoing items to suit the purposes of this work is given as follows:

Int. on Capital.....	\$0.54
Overhead expense	1.37
Profit	1.77
Labor	.55

Burdens imposed on L. B. Bill.....\$4.23

Page 227, Table 67—Average Book Cost of Structural Shapes from Large Billets, 1902 to 1906, in Dollars per Gross Ton:

		Average 5 years
Large Billets		\$21.88
LABOR	\$2.54	
Fuel	.31	
Steam	.42	
Rolls	.32	
Materials in repairs and maintenance.....	.44	
Supplies and tools.....	.18	
Miscellaneous and general works expense.....	.44	
General and miscellaneous expense.....	.63	
Depreciation	.60	
PROFIT (Table 68).....	7.42	13.30
Sale price Structural shapes.....		\$35.18

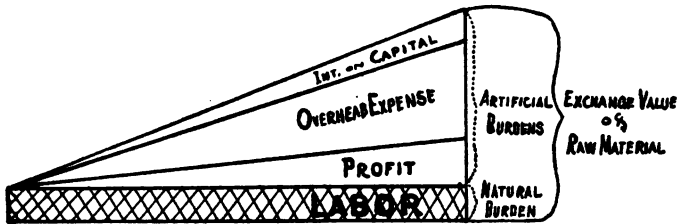
A reclassification of the foregoing items to suit the purposes of this work is given as follows:

Int. on Capital.....	\$0.60
Overhead expense	2.74
Profit	7.42
Labor	2.54

Burdens imposed on S. Shapes.....\$13.30

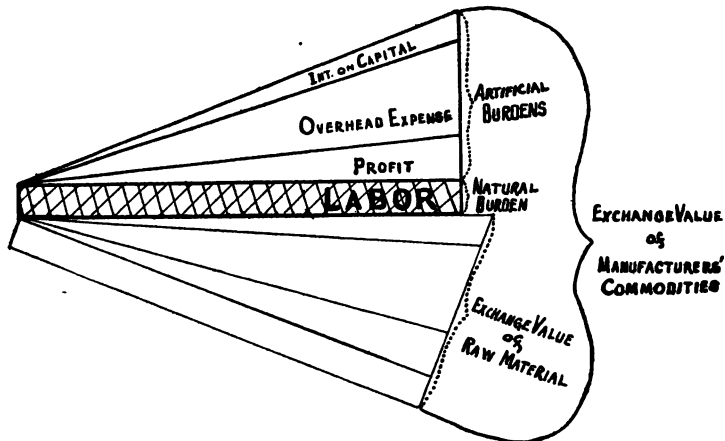
SUMMARY OF RECLASSIFICATIONS

	Ore	Pig Iron	B. Ingots	B. Billets	Struct.	Total
Int. on Capital.....	\$0.40	\$0.39	\$0.46	\$0.54	\$ 0.60	\$ 2.39
Overhead expense....	1.79	5.55	1.65	1.37	2.74	13.10
Profit	.66	.86	.84	1.77	7.42	11.55
Labor	.45	.77	.57	.55	2.54	4.88
	<u>\$3.30</u>	<u>\$7.57</u>	<u>\$3.52</u>	<u>\$4.23</u>	<u>\$13.30</u>	<u>\$31.92</u>



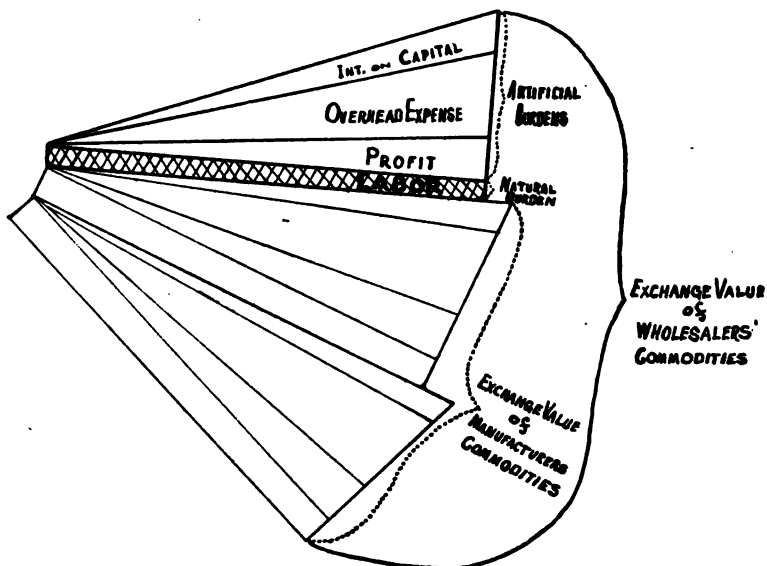
The foregoing diagram shows that the exchange values of raw material consist of the NATURAL and ARTIFICIAL BURDENS.

The foregoing diagram is a summary of the reclassification of the foregoing into the two burdens, but is presented rather as an average in connection with producers of other kinds of raw material, than in mathematical accord with the reclassification given here.



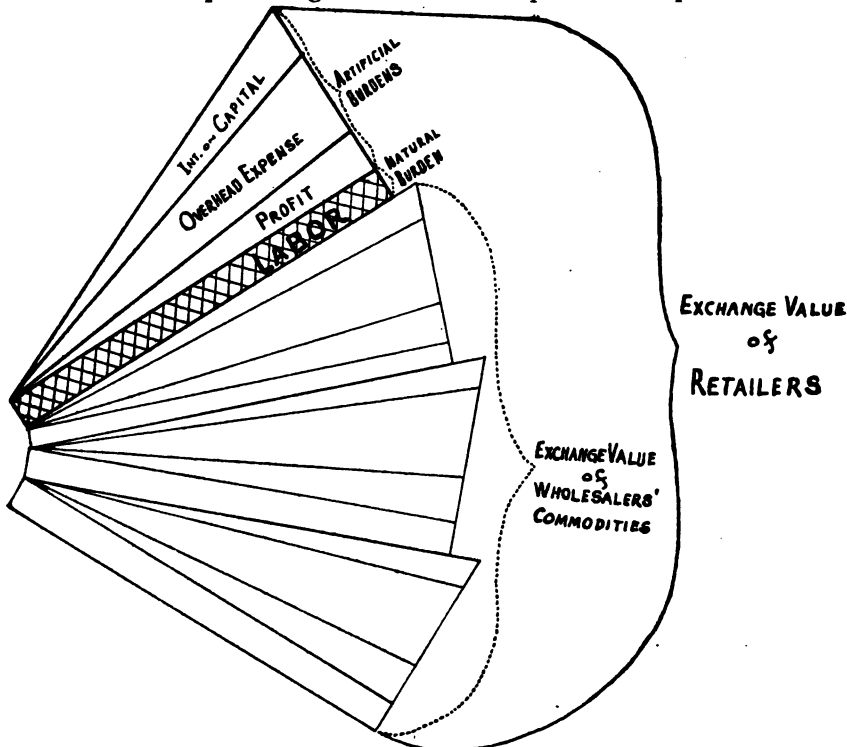
The foregoing diagram shows that the exchange values of commodities manufactured consist of the sum total of the NATURAL and ARTIFICIAL BURDENS imposed upon raw material and NATURAL and ARTIFICIAL BURDENS imposed by the manufacturer.

The natural and artificial burdens of manufacturers of commodities from raw materials purchased by them, are very much alike and similar in principle, and it will therefore not be necessary to present these except in the average form of a diagram.



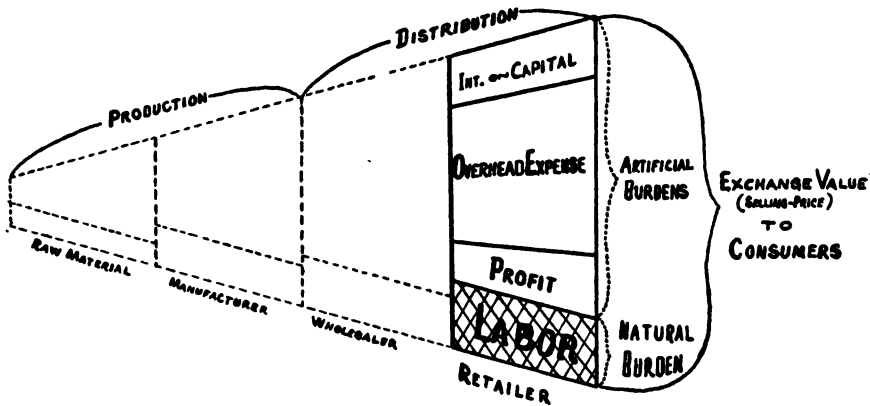
The foregoing diagram shows that the exchange values of commodities sold by wholesalers consist of the sum total of the NATURAL and ARTIFICIAL BURDENS imposed upon raw material and NATURAL and ARTIFICIAL BURDENS imposed by the manufacturer and NATURAL and ARTIFICIAL BURDENS imposed by the wholesaler.

The wholesaler likewise has natural and artificial burdens which differ considerably with reference to labor, but not very much in the percentage of overhead expenses and profit.



The foregoing diagram shows that the exchange values of commodities sold by retailers consist of the sum total of the NATURAL and ARTIFICIAL BURDENS imposed upon raw material and NATURAL and ARTIFICIAL BURDENS imposed by the manufacturer and NATURAL and ARTIFICIAL BURDENS imposed by the wholesaler and NATURAL and ARTIFICIAL BURDENS imposed by the retailers.

The retailer's artificial burdens imposed upon the exchange values of his commodities are out of all proportions to any of the preceding establishments. These relate in chief to his overhead expenses which are usually quite large compared with his stock in trade or capital, and in like manner to his profits, which are far greater in percentage than in any of the foregoing economic branches.



The foregoing diagram is to serve the purpose of pointing out in the most pronounced manner the two kinds of burdens which have been designated as "artificial" and "natural."

The trinity of artificial burdens are shown to a good advantage, being composed of interest on investment of capital, overhead expenses, and profits. The natural burdens consist of the different kinds of labor (intellectual and physical) from raw material to finished products delivered to consumers via retailers, and are shown at the bottom of the diagram by the shaded portions thereof.

Under individual ownership we have a glimpse of the artificial burdens as these are repeated "each" in the several sections and finally all embodied in the selling prices of retailers. The consumer pays for all these burdens both natural and artificial.

The evolution of society will have to look in the direction of artificial burdens, and gradually reduce these by regulations until national ownership during its evolution covering several generations, shall have caused these artificial burdens to have ceased, and the selling prices to consumers be composed only of the natural burdens.

There is a vast difference in practice between the "theoretical" dollar as used by the operator, manufacturer, wholesaler or retailer, and the theory of this dollar based either upon 23.22 grains of gold constituting an asset, or based upon the standard of a debt constituting a liability.

The Money-language which is used to measure exchange values is in practice not at all resting on gold or any other commodity, but on the Artificial and Natural Burdens imposed by operators, manufacturers, wholesalers, and retailers.

Money-language is therefore applied to "burdens;" it rests or is based exclusively on "burdens," and not on gold.

It matters little what economists think or say about the standard of value, but it does matter what society is actually doing with this money-language—what it does constitutes the facts, truth or law.

Operators, manufacturers, wholesalers and retailers apply the money-language, each as the occasion arises, whereas the government furnishes a medium of exchange based on a false standard of value (gold or debts), or in case of checks the depositors of banks furnish their own mediums of exchange.

MORALS as to Burdens Imposed Upon Exchange Values.

1. That the wages of labor paid for producing commodities constitute a Natural Burden in the determination of the exchange values of such commodities.
2. That the wages of labor paid for transportation of commodities constitute a Natural Burden in the determination of the exchange values of such commodities at their different places.
3. That the wages of labor paid for the distribution of commodities constitute a Natural Burden in the determination of the exchange values of such commodities offered to consumers.
4. That the interest on investment of capital, overhead expenses and profits, constitute Artificial Burdens which add nothing to the natural value of commodities but serve merely to INCREASE or SWELL the exchange values, incident to the system of individual ownership.
5. That the Artificial Burdens are in fact PENALTIES imposed upon the consuming public by means of a system which operates in a most expensive, cumbersome and oppressive manner which it is possible for man to devise.
6. That the cheapest, simplest and most inexpensive system of production, transportation and distribution of commodities would be that one which would operate FREE FROM ALL ARTIFICIAL BURDENS, such as in time under National Ownership whereby only the Natural Burdens would be imposed upon the public in the exchange values of commodities offered to consumers.
7. That Certificates issued upon "labor performed for the GOVERNMENT (nation)" as a medium of exchange would be the first step in the direction tending toward an eventual elimination of Artificial Burdens.

MORALS AS TO VALUE.

In this work it has been found necessary to disregard all expressions of different textwriters in their relation to "value;" such as real and nominal value, subjective and objective value, marginal value, etc., etc., and follow the definition and classification of value as laid down in the book SOLUTION as follows:

"Value is the expression of the degree of natural utility, oftentimes measured in terms of money, applied not only to man's labor and to all objects movable and immovable, organic and inorganic, concrete or abstract but also to land and water including all that is within, above and beneath these."—SOLUTION, page 78.

It is clear from this definition that there are two divisions, kinds, or classes of value:

1. One which relates to the natural condition of a commodity, and in case of labor to the natural degree of skill thereof.
2. The other relates to the exchange values of commodities, and in case of labor to the wages or exchange value of such labor.

In consequence of this division the first one has been designated as "Natural Values," while the other is termed "Exchange Values."

Natural Values relate only to the natural condition of commodities; that is to say whether these are fit for use, damaged, or destroyed in part or in whole; such as fruit, vegetables, flour, bread, meats, etc., etc.

Natural values in no manner require a consideration of labor or the wages paid for any labor. This applies to all commodities and productions, such as furniture, machines, instruments, books, paintings, clothes, buildings, etc., etc., whereof only the utility of each is taken into consideration without reference to the labor which brought forth these, or the wages paid therefor.

Natural values of commodities are judged by the buyer who determines whether or not their nature and character is suited to fill his demand.

Exchange values are expressions in money language adopted for universal convenience without any regard having been taken for the employment of a standard which would serve also as a measure of money language. It is clear that the wages paid labor under individual ownership fluctuate even as the exchange values of commodities, and that therefore under such circumstances labor could not form the basis of money. But the government could easily start a new system whereby labor and the exchange value (wages) of labor would be made the basis of money; and upon that it could

issue a medium of exchange which latter would always express (but never measure) the exchange value of commodities.

Labor of a certain amount performed within a certain time and wages paid therefor would also be and remain the instrument of measurement.

In this way the exchange values of commodities would always run parallel with the wages paid labor, unless the natural values were thereafter either accidentally or through the acts of natural laws impaired.

Any changes in the schedule of wages would make corresponding changes in the exchange value of commodities.

Whenever the government has embarked upon this new foundation of making its money based upon the standard of labor and the value of the standard of labor, then all topics now written in books on Political Economy will become dead languages.

MORALS RELATING TO UNITS OF VALUES.

Every commodity is subject to two values: One, its natural value (utility) which necessarily embraces also its bulk, and the other value which relates to a money-value or exchange value.

The bulk of a commodity is always expressed in terms of some unit of measurement whereof either the footrule, pint measure, pound weight, etc., etc., is the instrument which measures the bulk into its physical units; thus, at retail, coffee, sugar, tea, lard, flour, nails, etc., are sold by the pound, oil by the gallon, lumber by the square foot, cloth by the yard, coal by the ton, etc.

Whatever the custom may be with reference to a commodity, its bulk is always subject to some standard of measurement which brings such bulk into mathematical relationship with itself—the standard of measurement.

This unit which may well be called the physical unit of a commodity forms also the basis of computing the exchange value thereof.

Whereas the physical units may be easily ascertained by re-measurements, yet the exchange value of such physical unit is indeterminable by the public because the monetary unit known as the "dollar" has never as yet been fixed or placed or based upon any one thing which possesses measuring powers with reference to exchange values, as other standards which measure the number of physical units of commodities.

FACTS RELATING TO STANDARD OF VALUE.

No other branch of economics is so much misunderstood and so much garbled by textwriters as that relating to the "standard of value" which forms the basis upon which a circulating medium of exchange is issued or coined.

No misconception exists or arises by the use of a standard which relates to the measurements of objects or to the measurements of liquids or to their weight.

Common and commercial parlance are even in scientific accord with the use of the footrule as the standard for measuring objects having dimension, the pint measure as the standard for measuring the volume of liquids and the pound weight as the standard for weighing either solids or liquids; but with reference to the standard of value whereby the exchange value of objects should be measured, there exists the greatest obscurity, confusion and misconception. A "standard" has been defined as follows:

"A standard is an adopted or legalized unit wherewith to determine the exact mathematical relationship of all other objects subject to such unit."—

SOLUTION, page 89.

The standard or unit to be selected for the dollar should, therefore, be composed of something which is actually capable of measuring most accurately the exchange values of all commodities.

There is only one place and only one time which is logical, scientific and in accordance with the facts which would permit measurement of exchange values, and that is, when natural (utilities or commodities) values are produced—when natural values are created—when natural values are made, and again when labor is necessary for their transportation and distribution.

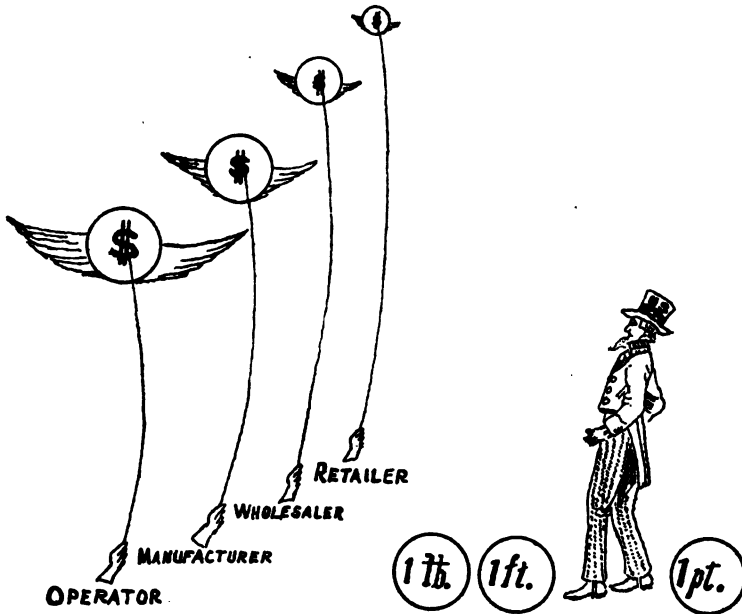
Wherever or whenever natural values are produced, transported, or distributed, you will find that "labor" is the human creator or cause of both.

Nothing could, therefore, be more within the realm of sound reasoning than to have the wages of labor act also as an instrument of measurement of exchange values even as such labor is an instrument producing natural values.

Labor requires time in its production of new natural values, and if the dollar were based upon a certain amount of labor within a certain amount of time and the wages paid therefor, it would be possible by the use of the money language to have an accurate measurement and expression of exchange values as sound, as accurate, as mathematical, as scientific as a thermometer, barometer, meter, etc.

The physical instruments of measurements and weights remain the same as long as no governmental changes are made in relation thereto; and so the money value (wages) of labor as an instrument of measurement could remain the same until the government saw fit to alter it.

The money value (exchange value) of labor and the exchange value of utilities or commodities produced by labor, would be constantly running parallel. That is to say, the exchange value would vary directly with the productive and distributive cost as per wages.



The government is losing time trying to get hold of that Kite-dollar while operators, manufacturers, wholesalers and retailers are controlling and flying it one at a time where each passes it to the other while waiting in line to get hold of the string. Each time this Kite-dollar is handed to the next in line he gives it more string and the Kite-dollar rises higher and higher and looks smaller and smaller until the last man (retailer) makes the Kite-dollar look like a penny.

The government has so far failed to own or control this Kite-dollar; therefore it lost such completely; and the productive and distributive masters now have it, and own it, and control it, and do with it, and go as far with it, as they please.

The Kite-dollar will never come to the government, neither can the government ever reach it.

The best advice is to have the government make another but new dollar—one without wings, and without strings tied to it. Keep the title thereof in the name of the nation, but allow full permission to everybody who desires to examine it. Keep the dollar within close range and reach of all.

The public will take to that new dollar much quicker and more kindly than to a Kite-dollar which can only be seen from the distance; and the greater the fresh breeze of economic profiteering, the higher up, and the farther off and the smaller will be the vision (purchasing power) of that Kite-dollar until it finally looks like a small speck in the sky (market places) too small to be of any value.

People are not going to break their necks looking skyward to ascertain the purchasing power of a Kite-dollar when it is possible to get a dollar made and controlled and owned by the government, whereof the purchasing power will remain constant between the exchange values of commodities and the wages of labor producing and distributing these under governmental industrialization.

However, the Kite-dollar should and must live until it dies of old age; that is to say, when its usefulness has been wholly outlived and fully performed, and has been displaced by a dollar which does not permit or allow artificial burdens attached to natural burdens.

It has always been considered of late years a function of the government to establish standards in relation to weights and measures in order to protect the public from abuses and frauds. It now becomes no less a duty of the government to establish a standard for its own use in relation to exchange values whereby the future public buying from the government may not be exposed to or burdened by unnecessary abuses or frauds and at the same time such public be relieved of all artificial burdens necessarily imposed under individual ownership embracing Interest on Investment, Overhead expenses, and Profits.

It is impossible to have labor act as a sole instrument of measurement of exchange values under our present system of civilization where such labor is performed for individuals; but it is possible to start a new system and slowly grow out of this system in a few generations into another by the gradual industrialization of our nation, functioning through its government officials, provided, however, that a most substantial and solid foundation has first been laid for such an undertaking.

No solution for our economic ills is to be found near the surface eruptions such as consisting for instance of the high

cost of living, labor troubles bringing forth strikes and lock-outs, corruptions to be found both in and out of political service.

Honesty provides no remedy. Man has for generations been honest in his dealings with individuals, but that amounts to nothing, for we have been learning for some time that these particular honest dealings have constituted dishonesty as to all others; and we are just beginning to feel the ill effects of it.

Present day textwriters claim that gold coin is the standard of value when as a matter of fact such coin cannot even measure itself either as to quantity or value because such requires a pair of scales and also a bullion value established by the nations or by arbitrary congressional enactments declaring the number of grains of gold to constitute the dollar.

Surely, if gold possesses no qualities or powers of measuring its own quantity or value, it is not possible to expect from it a service whereby it could measure the exchange value of other commodities. In fact not a single commodity on earth can measure itself and therefore such cannot measure any other commodity.

The Silver Situation in the United States 1893 by F. W. Taussig, LL.B., Ph.D., Prof. of Political Economy in Harvard University.

Page 126—"In fact, gold performs the functions of a measure of value and of a standard of value with as close an approach to perfection as there is any reasonable ground for expecting from any monetary system."

We need expect no monetary reforms ever to come from Mr. Taussig, who sees almost a perfection in the use of gold as a standard of value. Mr. Taussig is not aware of the fact that gold and all other commodities selected as a standard are not capable of performing the functions of measuring the monetary values of other commodities.

Economics 1898 Edw. T. Devine, Ph.D., Staff Lecturer of the American Society for the Extension of University Teaching.

Page 234—"Money is the standard of value and performs its functions by acting as a medium of exchange. It becomes the standard in virtue of its constant use as such medium."

Under Mr. Devine's conception of money it would be possible to have fiat money in circulation become a standard of value simply because of its use.

Money and Banking 1916 Wm. A. Scott, Ph.D., LL.D., Director of the course in Commerce and Prof. of Political Economy in the University of Wisconsin.

Page 2—"A standard of value is any commodity by means of which people measure and express the value of other commodities."

Mr. Scott fails to recognize the fact that not a single commodity ever possessed measuring powers or properties insofar as these relate to monetary value.

Labor at work which in so many hours or days brings forth new commodities or distributes these, is the only instrument on earth which is adapted to or fitted for measuring exchange values.

Whenever the dollar is based upon a certain time of labor per day, or as I suggest for the present, have a certain number of dollars based upon a day's labor, according to that schedule of wages which our government would adopt at least for a time, then it would be possible to establish mathematically the money value of what such labor produces and distributes.

Textwriters on money have as a rule not observed or pointed out that under individual ownership the interest on the investment, the overhead expenses and profits of producers of raw material, of manufacturers, of wholesalers, and of retailers are composed of artificial burdens which are in varying proportions added to the actual cost of labor in production, labor in transportation, and labor in distribution.

Four times are the same classes of artificial burdens each composed of a great many and variety of standards of measurement, incorporated in the exchange value of commodities. There are some instances but not many where the burdens are less than four, but never less than two.

All our troubles arise from the existence of entirely too many standards of measurements determining exchange values whereof the seller uses these instruments himself to his own gain to the 100% extent, while the buyer only gets the result handed to him in the language of money. I dare say that the most illiterate man who earns his wages by the sweat of his brow could not be convinced that the money (gold or silver) which he hands over to the grocer or the butcher measures the value of what he gets in exchange. He is waiting in perplexed anxiety to find out what the exchange value will be when the grocer or butcher gets through figuring. To him it appears that the grocer and the butcher are figuring to get all the money they can out of him, and that the only task left for him is to count out enough money to equal the amount demanded. This laborer is right in his judgment. The grocer and the butcher do the measuring of exchange values while the consumer does only the paying.

Whatever applies to coins, applies with still greater force to the Circulating Notes of the government and banks, all

of which are based upon a "standard of debt." If a gold coin which constitutes an asset of the nation is unable to measure money-values of commodities, then surely a Note which is nothing more than a Circulating Liability of the nation, cannot be expected to perform the functions of measuring money-values.

It must be apparent from this that Nicholson's quantity theory which assumes that money may consist of Dodo-bones is not far from the truth. I will go one step farther and say that all gold and silver coined into money are no better than if we used Dodo-bones; and that our Circulating Notes are worse than Mr. Nicholson's Dodo-bones. An interesting criticism by Prof. Scott (University of Wisconsin) and B. M. Anderson (Harvard University) regarding Nicholson's theory is to be found in the book entitled *The Value of Money* (B. M. Anderson) 1917, on pages 81 to 82 and also pages 130 to 153.

I do not myself want or advocate Dodo-bones any more than Greenbacks, because neither are based upon a standard of value; but to say that gold, silver, or any other commodity is capable of performing the functions of a "standard" by measuring values—is to admit total ignorance of all that which a standard is required to perform.

There is a vast difference between an instrument which measures, and another which merely expresses the results of measurements.

It takes the footrule for measurements, but we may take buttons, chips, or Dodo-bones to express the results thereof. The economic world has merely substituted "gold" for the buttons, chips and Dodo-bones, and gold whether in the form of coins or buttons, or chips, or Dodo-bones—such gold never did and does not now possess measuring properties in relation to money value.

This inability of any commodity-money to perform functions of measuring values extends not only to everything of exchange value, but it necessarily includes the identical commodity of which it is made.

A \$20.00 gold coin does not even measure itself; it merely expresses the results of measurements made in the mint of gold and alloy supposed to be in conformity with governmental regulations.

How can anyone measure such a coin as to value? We merely take it for granted that the measurements were made

as required. Suppose they are less or in other proportions? How are we to know?

An assayer is the only one who, by a tremendous task, is able to check up the measurements made in the mint.

Surely it is going beyond all facts and reason to claim that gold coins are able to measure the value of all other commodities when in fact such coins are not able to measure their own value.

Only one standard for measuring exchange values is possible and necessary; and when our country will have adopted this standard it will begin to embrace and enjoy its great and glorious prospects which lie in the future before us.

This "standard of value" for money is defined as follows:

"The standard of value is a legalized unit of inherent value used, not only to determine the cost price of the products and achievements of every kind of human labor, but also forming the basis of money upon which to issue a circulating medium of exchange."

This is a definition which does not yet apply, but into which this nation will eventually have to grow; in other words, a prenatal definition of that real standard of value of the highest grade which is yet to be born and embraced.

All sound money is composed of two elements, namely, the medium of exchange, and the standard of value.

The standard of value is composed of the "standard of labor," and the "exchange value" (wages) of the standard of labor.

"The standard of labor is the adopted or legalized unit of one day's common labor performed for the government in accordance with regulations setting forth the number of hours and amount of labor."

"The value of the standard of labor is the adopted or legalized amount offered or paid by the government for the standard of labor."

These definitions are also to be found on page 8 of the first Supplement to the book SOLUTION.

For a full and complete presentment of the foregoing consult both book and Supplement.

MORAL AS TO THEORETICAL STANDARD OF VALUE.

For all practical purposes it would not make any difference if the theoretical dollar were based upon the birds' nests in the forest instead of 23.22 grains of gold.

No one ever thinks of gold, any more than he does of cement blocks when buying or selling the things which satisfy human wants.

The people want results; and these results consist of food, shelter, clothing, amusement, transportation, etc., etc.

We use money merely as a means, and do not as the economist consider it a gold commodity which is "bartered" in every exchange.

In fact the dollar of today is based largely on debts, and still we transact our business as before, using a great variety of instruments for measuring and determining exchange values, without reference to any particular standard. In practice this theoretical dollar is whipped into any line or angle which satisfies the profiteer of the 1% kind to the 100% thereof.

By taking the physical dollar and buying the things we need, we approximate its purchasing (exchange) power. We know definitely what things we consume or need each week or month; and so it is possible to determine from the selling prices of commodities, how many of these physical dollars we will require each week or month as the case may be.

We measure the purchasing power of the physical dollar by what we are able to get in exchange for it, but that amounts to "nothing" because we have always known such power to vary mathematically (inversely) with the rise and fall of the exchange value of commodities. What we want is to measure the "rise and fall" over which we at present have no control.

What we therefore need is a fixed standard of value so that it would be possible to check over the cause of any rise or fall in the selling prices of commodities. Without such a standard we are in the realm of darkness about exchange values; and dealers are able to take the most undue advantage of their buyers by tacking on most unreasonable profits for themselves. Every little boy knows the purchasing power of money and that is nothing to brag about. He knows that 10c today will give him no more candy than 5c did two years ago. Such knowledge is of no value except to indicate that errors are in existence in our economic system and in relation to money.

Any little boy can "compare" the selling price of candy with the amount of money he must offer for its payment, but such knowledge is too primitive to satisfy the grown-up man who wants an instrument for measuring money-values, rather than something else which merely acts as a "comparison" of values.

Some textwriters do claim that money or gold does not possess measuring powers or qualities for determining exchange values and they therefore use the word "compare" instead of "measure."

Principles of Economics 1913 by Henry R. Seager, Prof. of Political Economy in Columbia University.

Page 324—"Some writers describe money as the measure of values, but it is evident that as a measure it is not in the same class as a footrule or a bushel. It is a convenient standard for comparing values or a common denominator to which all values may be reduced; but as a measure of values in any absolute sense it is untrustworthy, since it is itself variable in value."

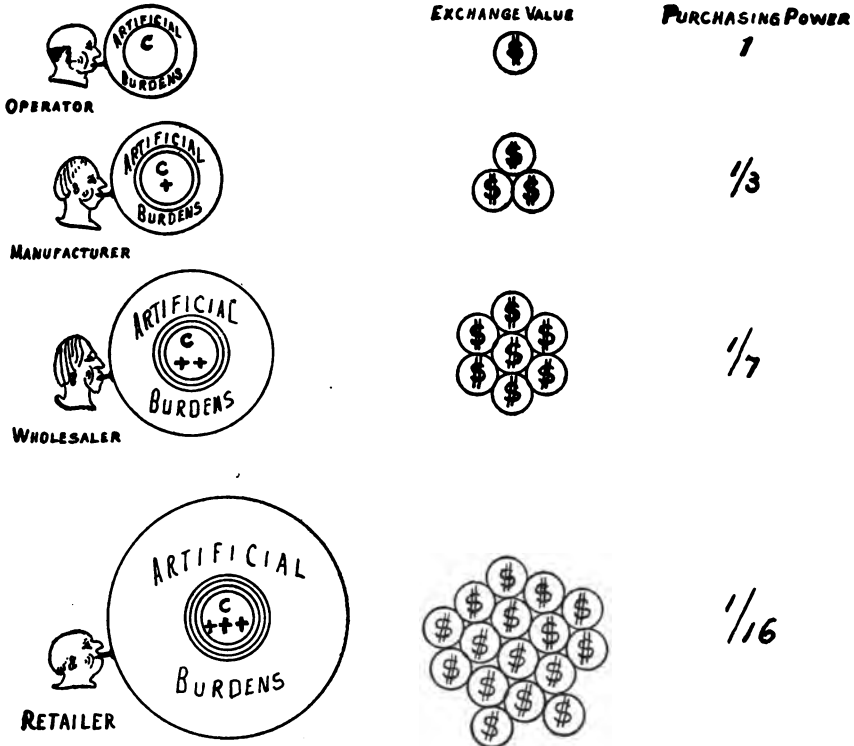
The "dollar is resting on shifting and sinking sands, and is slipping and sliding as if on skates driven in a race for wealth between capital and labor."

Dealers, manufacturers and operators use the theoretical dollar as a mere tool whereby to express in money-form their passions for profit embodied in exchange values. Buyers are forced to yield as innocent victims, their dollars in payment under a system just as sheep are compelled to yield up their wool to the shears of those who claim to own them without the consent of such sheep.

Suppose a laborer produces a small clay marble which a consumer wants. This consumer under our system is, however, only able to get this marble after it has passed through many hands from the factory in which it was made down to the retail store where it is offered to the consumer. Let us use "mud" to represent the artificial values which make up in a large measure the exchange value (selling price) thereof. As soon as the laborer has made this clay marble the manufacturer puts on a good thick coating of mud (artificial burdens) around it and in that form passes it to the wholesaler. The wholesaler takes this marble with its burdens expressed in mud, and adds quite liberally another batch of mud, and in that manner he disposes of it to the retailer—who, when he gets it, puts enough mud on it to make it look as big as a football. When the consumer gets this football he takes it home and after stripping off all the mud of artificial burdens, he finds the little clay marble just as the labor produced it.

Any man can see that there is something wrong in our system of economics when a consumer has to pay football prices for a little clay marble which ought to be retailed at marble prices.

This same man ought to understand that there is no such a thing as a one standard of value, but that there are innumerable standards or instruments all of which have a voice in swelling the exchange value.



The foregoing illustration is intended to show diagrammatically the great "artificial burdens" of Interest on the investment of Capital, Overhead expenses and Profits, which when added to the natural burdens (wages of labor) impose almost unbearable selling prices upon the buying public.

- C represents raw commodities at the production cost of labor
- C+ represents finished commodities at the production cost of labor
- C++ represents finished commodities at the distributive cost of labor
- C+++ represents finished commodities at the distributive cost of labor

Note carefully that the mine operator and farmer, manufacturer, wholesaler, and retailer have handled this theoretical dollar so that its purchasing power during its journey has been ultimately reduced to $\frac{1}{16}$. While this may be true of some articles, yet as a whole it constitutes an exaggeration.

It cannot be said that the government controls the "standard" which is to measure values when in fact it is the mine operator and farmer, the manufacturer, the wholesaler, and

the retailer who control it. The gold standard is a huge joke; it's a dream—a dream of would-be statesmen.

No amount of governmental regulations will relieve us of artificial burdens either big or little as long as we endure under the system of Individual Ownership. It will, therefore, be the duty of the government to start in the future a new system eliminating all artificial burdens while the old one would remain in constant and continued competition and operation until the survival of the fittest decides the fate or destiny of each.

We cannot blame the theoretical dollar for the mischief it is doing for the consumers of commodities, etc.

Another look will disclose that in practical economics it is not the inorganic, defenseless dollar which is to be blamed in its use by mining operators, manufacturers, wholesalers and retailers, each of whom is injecting "artificial burdens," but the economists who make no distinction between something which is in constant motion or movement during its creation or production, and another thing which is relatively at rest.

To measure something at rest we use the footrule, pint measure or the pound weight. But to measure something in motion—in course of construction, development or evolution, such as commodities in the process of manufacture or production—we must adopt something (labor) which is itself in parallel motion.

In fact production is in parallel motion with "labor" which produces.

Therefore to measure the money-value of production it would be necessary to use the wages of labor which in its daily work (motion) sets the pace of production.

Labor is constantly creating new commodities. While these are in the process of being made, these are industrially growing or developing.

To measure accurately the money-value of their growth it would be absolutely necessary to use the wages paid for these during their growth or development into a finished commodity. Gold or any other thing is utterly unable to perform that task. After the commodity has been finished, ready for consumption, and such is no longer in any process or stage of development, then we may use the footrule, pint measure or pound weight, as the case may be.

Money is also like a game of shinny which the boys play on ice, each having a shinny-stick, while the theoretical dollar is the shinny.

This theoretical dollar is willing to obey everyone who has a big stick in his hand and knows how to use it, while those who have gathered around to watch the game are fre-

quently hit with the shinny, which makes a very noticeable impression wherever it strikes.

Money to be based on a standard of value would have to possess something (labor and wages of labor) which would be cemented down, and so firm that no individual human power could move or alter it except congress. Anybody in business today can kick the theoretical dollar as hard as his heart desires, provided he confines himself within the distant boundaries of supply and demand, and competition.

MORALS AS TO STANDARD OF VALUE

1. That the standard of value cannot be placed upon any instrument which is at rest with reference to the earth; and that therefore no commodity has or can possess qualifications, powers or properties for measuring values.
2. That natural values in their many processes of production from the mining of ore,—the reduction of ore into metal,—the manufacture of metal into commodities,—the transportation and distribution of such commodities, all these require objects or matter (ore, metal) to be in motion, in the process of development.
During the time of production from the Alpha of raw material to the Omega of a finished product, "values" are being developed, "values" are growing,—values which relate to natural utility as well as to money-value.
After the final step in production and transportation has been taken, and the finished product is at rest—then we may invoke the aid of a footrule, pound weight or pint measure, etc., to determine the money-value of the "bulk" from the number of units therein.
3. That labor is the creator at work, or the cause bringing forth the productions from raw material to the finished products, and that its wages measure the cost value thereof.
4. That under our system of individual ownership of the means of production, transportation and distribution, labor is constituted a "commodity" whereof its value (wages) depends upon supply and demand as other commodities; and that therefore such labor and its wages cannot be used as a standard of value.
5. That the U. S. government is the only institution which could inaugurate a new system by employing its labor and the wages paid therefor as the standard of value, while engaged in the production of national improvements at first, and later industrializing itself by nationalizing one industry at a time, starting each from the ground up as necessity demands.

ECONOMIC CONCLUSIONS RELATING TO MONEY.

1. That money based upon or representative of a commodity, places such money upon something of "natural value" or utility, and thereby complies with the requirements as to "value," but does not comply with the requirement of a "standard" serving as an instrument for measuring money-values.
2. That money should rightfully be based upon or be representative of something of natural value or utility, which something should possess the powers of measuring money-values of all other natural values (commodities, etc.).
3. That money based upon or representative of something of natural value, is not in itself sufficient to complete the requirements of a "standard of value" because a standard of value is composed of two elements, namely:
 - (a) Something of natural value
 - (b) The same something possessing also a money-value capable of measuring the money-values of all other natural values (commodities, etc.).
4. That all mediums of exchange should be merely representative expressions of money-values, determined by the "standard of value."
5. That textwriters have correctly stated that money "should consist" of a medium of exchange, and also of a standard of value, but these have mistaken the many operative standards of the Artificial and Natural burdens for the inoperative gold standard.

Giving money of today an interpretation of the widest range so as even to include checks, we find

1. That none of the coins and none of the gold and silver Certificates all based on a standard of value, and
2. That none of the Legal Tender Notes, none of the National Bank Notes, none of the Federal Reserve Notes, and none of the Federal Reserve Bank Notes all based on a standard of debt.

all such money fails to possess measuring powers and properties.

6. It is the Artificial and Natural burdens expressed in money-language which measure money-values.
7. That labor is the creator or producer of all natural values, and the wages of labor (the latter performed for the nation) should constitute the instrument of measurement; whereas Labor Certificates would constitute the medium of exchange expressing the results of all measurements of money-values in terms of (money language) money. Subsidiary coins could likewise be based upon the same standard of value and be termed "Labor Coins."

GENERAL CONCLUSIONS ABOUT ECONOMIC SYSTEM.

1. That as long as the capitalist system will continue (for at least several generations) to exist, so long will labor in its employ constitute a "commodity" the money-value (exchange value) whereof will fluctuate as other commodities according to the demand and supply thereof.
2. That labor and its wages as a "standard of value" for money cannot therefore be applied to or embraced by the capitalist system.
3. That only the national government is capable of making labor and the wages of such labor the "standard of value" whenever such labor and its wages are made to apply to the construction or erection of national improvements, etc.
4. That the national government's special duty should be to regulate the "artificial burdens" imposed upon all exchange values arising under the capitalist system.
5. That the national government's duty should be to start a new system of pure, practical and perfect "ECONOMY" by first laying a proper foundation of constructing or erecting national improvements, using "Labor and its wages" as the "standard of value" upon which to issue a medium of exchange (Labor Certificates); and thereafter such government should proceed as necessity requires to industrialize the nation by taking one commodity at a time and starting its manufacture from the ground up, and effecting its distribution upon the basis of natural burdens only.
(I recommend for study the 1st Supplement to the book SOLUTION, embodying the subject matter of money, Individual Ownership and Government (national) Ownership.)

MORALS AS TO GOLD AND LABOR.

1. In case of a Gold Certificate the government certifies that gold coin has been deposited in the U. S. Treasury. We assume that such deposit has been made.
2. In the case of a Labor Certificate the government would certify that "labor" has been performed for the nation. We would likewise have to assume that such labor had been performed. But the products or improvements resulting from such labor would be "visible" to all who would desire to see these.
3. The nation can be enriched by labor, even as labor enriched individuals while in their employ—but the nation cannot be enriched by gold coin which is lying idle in the U. S. Treasury.

4. Labor is able to bring forth national improvements and products while in the employ of the government—but gold stored in the U. S. Treasury necessitates an expenditure for vaults and guards.
5. Labor is at all times proportional to the size of its society. A small society requires little and possesses little labor. A large society requires much and possesses much labor.
6. Gold bears no relation to society, but labor does.
7. Money based upon labor and its wages would run parallel with the needs and wants of society.

OBJECT OF LABOR CERTIFICATES.

(Not here considering payments of pensions.)

Labor Certificates should only be paid out by the government for work and labor performed for the nation; and these certificates would quickly find their way into the banks where these are intended to accumulate and thereby fortify such banks against any unusual demands created by panics; so that ultimately any kind or number of industrial paralysis would in no way or manner interfere with the regular operation of banking.

The primary purpose of the Labor Certificate is to enable the banking institutions which are performing the functions of a heart for the nation, to remain in constant operation during panics. The secondary purpose is to remove poverty and enforced industrial idleness from the nation due to chronic or acute (panicky) unemployment.

The third purpose is to lessen the sudden loss of wealth of individuals occasioned also by panics.

The fourth purpose of the Labor Certificate is to permit an orderly, logical and righteous transition from individual to national ownership of everything of natural value by avoiding all haste or speed for the accomplishment of this end.

SUMMARY CONCLUSIONS ABOUT LABOR CERTIFICATES.

Labor Certificates will in time prove to be the solution, effecting an emancipation of all classes from their seemingly insurmountable obstacles and difficulties encountered in the political, industrial, financial, social and intellectual activities because:

1. These rest on the firmest rock of foundation composed of the highest wisdom and best experiences of man.
2. Their use as an exchange medium is limited to labor and in their ultimate use will apply wholly and solely and strictly to labor to the 100% thereof, except payment of pensions.

3. Their use for several generations would not only provide for an orderly progress, but bring about and vitalize that indispensable evolution which would gradually displace individual with national ownership.
4. Their use would quietly and lawfully and righteously depose financial and industrial kings by a change of the tide of production from individualism to nationalism.
5. All citizens would eventually be crowned masters; and government officials would gradually turn from the despotism of ruling to the loftiest dignity of serving their masters—not, however, as slaves, but as the most learned, dignified, and exclusively competent master-agents of the citizens, whose sole object, aim and pleasure it would be to furnish environments yielding to all their people the greatest national peace and happiness possible within their range of wisdom, as distinguished from their official progenitors who ruled the masses solely for the selfish ends of gratifying imaginary honors or satisfying their lust for power or profit.
6. Their use would develop “order” (nationalization) out of artificial chaos (individualism) bringing forth the greatest efficiency through co-ordination and co-operation of every element in the sphere of human activities tending toward the development and crystallization of one great national unit in “MAN, PROPERTY AND POWER.”
7. Their use would finally demonstrate that Labor Certificates constitute the pivotal point upon which a whole nation can be made to swing within a few generations from its 100% intolerable hell to at least an 1% heaven and upward.

SUMMARY CONCLUSIONS ABOUT FIAT MONEY.

Fiat money would be dangerous because:

1. It rests on no foundation of value, nor is it representative of anything of value.
2. Its use as an exchange medium would therefore be unlimited and arbitrary.
3. It would preclude an orderly and necessary evolution from individualism to nationalism.
4. It would create financial kings in the place of industrial kings—more terrible than ever.
5. It would demonstrate to our sorrow the inability of government officials to industrialize the nation.
6. It would lead to intolerable inefficiency, neglect, and gross corruption.
7. It would finally result or end in Bolshevism as the term is now used in its popular sense in our country, which would mean bloodshed, riots, plundering, arson and finally revolution.

PRIMARY CONCLUSIONS NO. 1.

1. That economists have worked out the proper elements of which money should be composed, namely, a medium of exchange and a standard of value.
2. That economists are aware that a standard of value implies measurements in relation to values.
3. That economists have considered "gold" the most suitable commodity to satisfy the feature of a money value.
4. That economists have failed to understand that gold even as all other commodities is absolutely unable to perform the functions of measuring exchange values.
5. That all facts in relation to money, and exchange values were at all times obtainable by means of investigations; and that therefore all students of Political Economy have been and are still being misled and misguided by wrongful theories promulgated in their text books, thereby disqualifying these for rendering in the future any beneficial service in that respect to their country.

PRIMARY CONCLUSIONS NO. 2.

1. That economists agree Political Economy embraces production and distribution of everything of natural value (wealth, commodities, etc.).
2. That economists have given us the right name for their science, namely, Political Economy; but these have failed to recognize that as yet every nation is operating under a system of the greatest Political EXTRAVAGANCE (artificial burdens).
3. That economists unaware of Political Extravagance have been offering Reform Measures which in fact would not even appease but tend to aggravate the economic disease of extravagance.
4. That economists have failed to discover that the creative cause for either Political Economy or Political Extravagance lies with the character of money in use.
5. That the progress of every nation will depend upon its ability to embrace a reform measure which will be in keeping and harmony with Economy—Political Economy.

PRIMARY CONCLUSIONS NO. 3.

1. That in the industrial development during the last century there has been exemplified the same principle which has always been in operation, even so in the evolutionary progress of organisms from Haeckel's well-known Monera (a homogeneous mass of the smallest unit of organic matter, the size of a little pin head) up to and including man.

2. That this universal natural law or principle consists of the "survival of the fittest;" this means that something of superior merit which receives recognition will in time displace everything else which is inferior but in general use.
3. That in the survival of the fittest through the struggles for existence, we have a safe rule of conduct which it is well for every nation to heed, for too sweeping and too extensive and too radical changes are contrary to sound and progressive evolution. It may, however, take compulsory measures to force recognition of something possessing superior merit and which is merely one step higher. Neither should we discount the future by taking too many steps at one time, but progress step by step even though it may take painful measures to compel a nation to take the very first step. It would, therefore, be fatal to the peace, happiness and orderly evolutionary progress of a nation for its people or a portion thereof to contemplate taking too many steps at the same time, especially when a first step in better and higher economics is yet to be taken.

PART III.

INTRODUCTION TO CREDIT.

Popular opinions and popular expressions are in most instances entirely different from their scientific facts, for one expresses what the people believe or imagine wholly and solely from outward appearances, whereas the other contains the true facts ascertained by careful investigations or analysis.

Popular expressions are therefore misleading and dangerous to the student because by mental reflection these are generally found to be so vague, so sweeping and so uncertain as to be irreconcilable and destined to lead the mind into great confusion whenever an effort is made to bring forth harmony and order out of their discords and chaos.

For centuries it was the popular opinion and belief that fire, water and air were chemical elements—but chemists knew better, these knew the facts.

A scientific work based entirely upon popular beliefs, fails not only to accomplish its purpose, but it really does worse than that—it unnecessarily spreads great confusion among students.

The purpose of this installment on the topic of "credit" is to point out with greater particularity the scientific function thereof, making it thereby more readily possible to distinguish error and confusion embodied in common, popular and commercial parlance from the actual facts in existence.

The function of any science is to present only the true facts in order to correct the errors of the public as manifested in and by their common or popular expressions relating to important topics.

It is therefore necessary for an author to exercise the greatest care in treating scientifically on any branch of economics so as not to include in his work all those errors, confusions and inconsistencies which are characteristic of all popular or common conceptions.

Economics has been referred to in many books as the science of wealth, the science treating on the production and distribution of wealth, the science of industrial relations.

Economics as a science should be raised to the same dignity accorded other sciences by treating all branches thereof only upon true, tried and known facts which are in existence either fixed or in operation; and in no wise and in no manner should there be any interpolation of the rattle and prattle of the plebians.

Seligman in his work on political economy has made a great distinction between the economic and legal phase of credit, claiming that the economic is the scientific phase thereof whereas the "legal" represents the contractual phase.

Principles of Economics 1905 by Edwin R. A. Seligman, LL.D., McVicker Prof. of Political Economy, Columbia University.

Page 419—"We must be careful not to confuse the legal with the economic conception.....Legally, if we part with the ownership of anything, it is a sale; if we part with the possession while retaining the ownership, it is a loan. Economically, the essence of credit is the temporary usance of wealth."

Page 470—"A sale on credit is, from the economic point of view, no sale at all. Legally, the ownership is transferred and the payment is deferred; economically, it is a grant to the purchaser of the privilege to utilize the commodity subject to the prior economic right of the seller."

The contract out of which credit arises, establishes the true status of the parties by defining clearly their respective rights or duties imposed upon them. The economic or scientific phase cannot be expected to do otherwise than to state the facts as these are developed in and by their contract. It follows from this that there can be no distinction whatever between the economic and the legal or contractual phase of credit. To state the facts commercially or legally is to tell the truth. And the science of economics even as other sciences should be wholly and solely directed toward ascertaining and thereupon presenting only the various truths as these are found either fixed or in operation.

Law in its widest sense is but the expression of a fact actually in existence.

Truth is but the expression of a fact actually in existence.

The function of a science is to state the truth; and nowhere else and in no other manner is the scientist able to get at the truth about industrial relations than by an examination, investigation or diagnosis of those "legal" contracts, verbal or written, expressed or implied, pursuant to which all business of the world is transacted.

There is not a single business transaction which does not involve some legal agreement, some contract, requiring

Parties capable in law of entering into a contract.

A lawful consideration and lawful subject matter.

A valid proposal and an acceptance binding upon all parties.

And thereafter the performance of their respective duties or obligations arising out of such contract.

Therefore science, law, and truth are merely expressions of facts; and these words should be treated as synonyms, and not as words intended to convey different or conflicting ideas.

In as much as all industrial relations arise out of and are conducted wholly and solely according to mutual agreements, it must be evident that the science of economics must be limited in its scope to apply to and embrace only those engagements (contracts) which operate continuously from cause to effect whereby society lives, moves and maintains its existence.

To base any work upon common, popular or commercial parlance, opinions, expressions or conceptions—is to fail in establishing it as a scientific work.

And so the word “credit” in its common, and commercial parlance as distinguished from its economic value forms a most splendid example, showing the existence of the greatest kind of a breach between the popular and the scientific interpretation thereof.

Credit has been defined in the book SOLUTION on page 43 as follows:

“A credit is a right conferred upon a person to demand a full discharge of a liability assumed by another according to agreement.”

**Principles of Political Economy 1873, by John Stuart Mill.
Book III, Chapter XI—“The functions of credit have been a subject of as much confusion of ideas as any single topic in Political Economy.”**

This misunderstanding and confusion about the word credit, arises entirely from a persistent endeavor to harmonize the errors of the public with the facts in existence. The errors of the public have arisen in their constant misuse of the word credit where “debt” in fact is the proper word, thereby making credit a synonym of debt; making the word credit take the place of the word debt.

I fully realize that in my attempt to clear up this mistake I stand alone against an array of authorities which have been looked upon with great respect; but I feel that I have at least a right to point out where I differ and why I differ.

I realize also that thereby I am upsetting in a large measure the theories of the past which like other innovations create disturbances; yet the world in every sphere of human activity has only progressed to higher planes by the benevolent but “unwelcome” guest of innovations creating disturbances.

All innovations whether relating to inventions or business rules were unwelcome at first but proved a blessing later on. Thus:

The advent of machinery was not only viewed by the wage earner with great alarm, but he predicted wholesale idleness resulting in poverty, misery, and great suffering for the masses.

Merchants and manufacturers were always reluctant in embracing better business or productive methods, and generally waited until forced to adopt also, those innovations whereby their more progressive competitors gained tremendous advantages.

Innovations have always wrought changes and whenever based upon sound principles, these in time proved to be of great benefit to all. Even so has it been with sciences where discoveries of errors were made through investigation. These discoveries frequently disturbed all prevailing logic and for a time resulted in still greater confusion until the intellectual storm had passed and calm judgment thereafter accepted the new order of things according to the truths and facts disclosed.

It will, therefore, be my purpose to draw a clear and clean cut distinction between the popular conception of the scope of credit on the one side and on the other its economic value and function in the field of human affairs.

Roughly speaking the human fabric of the nation as it exists today is composed largely of men engaged in production, others in distribution and still others who comprise our political servants charged with duties regulating the conduct of all in the interest of all.

The domestic commerce of a nation relates to utilities either in concrete existence, or to such as are abstract; in other words, goods, etc., in existence or on hand, or goods, etc., not yet in existence or not yet on hand.

It is most important to impress this principle firmly upon the mind for it involves the operation of natural laws such as expressed by plus (+) or minus (—), positive or negative.

Goods in existence or on hand will hereafter be known as or termed "concrete," while such as are not yet in existence or not yet on hand but expected to be at some future time, will be designated "abstract."

The commerce of the nation relates to both concrete and abstract goods; mathematically expressed it deals in concrete and abstract quantities such as plus and minus quantities.

The financial means of distribution in effecting exchanges likewise involves the use of a money which in its national character is either concrete or abstract.

Coins and their certificates constitute concrete money because these are based upon bullion or metals in existence having intrinsic and market value.

All Circulating Notes of the government and banks may be considered U. S. abstract money as these are promises or orders to pay (debts), which in some instances to a very large extent are secured simply by other promises to pay, or in other instances are secured to a much less extent by concrete reserves of coins or bullion.

The use of checks as a medium of exchange constitute a "people's money" which is likewise based upon an indebtedness assumed by banks, and such checks will hereafter be considered in the class of abstract money.

The whole nation is maintained in its activities by the use of two sets of distinct but opposing standards. The concrete standards whether relating to goods or to money, are above the mathematical zero. The abstract standards also relating to goods and money are below the mathematical zero. Money based on value (standard of value) is above zero; money based on a debt (standard of debt) is below zero. Money based on the standard of value when in circulation is a circulating asset whereas money based on the standard of debt when in circulation constitutes a circulating liability.

To the public there is no difference, and they see no difference in money between a circulating asset and a circulating liability. As long as a circulating liability accomplishes their purposes for the time being, they are not interested to know the dangers which await them by the use of such abstract money.

When, however, financial storms begin to rage, then complaints may be heard from them on all sides.

The public give and receive both concrete and abstract (mostly abstract) money in full satisfaction which may be termed "concrete satisfaction" for exchanges of goods, debts, or other obligations.

Goods bought on promises to pay at some future time—on a debt, may be called an "abstract satisfaction"—a temporary satisfaction which is to be replaced by the concrete of its kind.

A clear conception of these mathematical rules operating in the productive, distributive and political realms wherein the concrete are plus quantities—quantities above zero; and the abstract or minus quantities—quantities below zero, will prove a great step in the direction of clearing up that great mass of confusion to be found in most text books treating on political economy.

The following classifications of "means" of production and of distribution and the powers of the government officials may be of service in getting a more comprehensive conception of industrial life in its daily operation.

ECONOMIC FUNDAMENTALS.

PRODUCTION Owned and Controlled by Individuals		CAUSE		GOODS or Commodities EFFECT	
Instruments of Means	{	Labor—Creator	{		{
		Sundries—Machinery, Bldgs., Power, etc.			
		Raw Material—Concrete Matter			
		Satisfaction			
		U. S. Money		Concrete	Concrete Satisfaction
		People's Money		Abstract	
		Buying on Debt		Checks, Drafts, etc.	
		Selling on Credit		Abstract Satisfaction	
DISTRIBUTION Owned and Controlled by Individuals		CAUSE		EXCHANGES EFFECT	
Instruments of Means	{	Goods, etc.	{		{
		Sundries—Relating to Delivery			
		Satisfaction			
		U. S. Money		Concrete	Concrete Satisfaction
		People's Money		Abstract	
		Buying on Debt		Checks, Drafts, etc.	
		Selling on Credit		Abstract Satisfaction	
GOVERNMENT OFFICIALS		CAUSE		EFFECT PUBLIC OPINION (Judgment)	
Powers	{	Establish—Money	{		
		Regulate—Conduct of All			
		Tax—Property, etc.			

It will be observed that money as a means, and debt as a means or credit as a means are so essential and important in every phase of human life that they are to be found permeating every sphere, nook and corner in both the productive as well as the distributive realms.

So important are their uses that they determine on the largest scale possible the results ranging in effect from the humblest individuals up to and including the nation as a whole. These results make life a joy or one of sorrow, a struggle or one of ease, a life of usefulness or one to be detested.

When our economists will reach down to the very bottom of our money in use (including checks) and begin to watch its operations through all the avenues of life from the Alpha to the Omega, and then also diagnose and analyze its functions, character and qualities—these will finally discover the creative cause of all ills to be our “money,” nothing else but our money.

TO BUY MERCHANDISE ON A PROMISE TO PAY (Erroneously called “On Credit”).

To buy merchandise in consideration of a promise to pay for same at a later date requires a contract. This is usually evidenced by a written or verbal order of the vendee for the purchase of specific merchandise together with his expressed

or implied promise to pay for same at a definite time, and the acceptance by the vendor of all such terms and conditions.

In common and commercial parlance it is customary to designate A (vendee) who orders merchandise, as the debtor whereas B (vendor) who accepted such order is known only as the creditor.

However, this is only one-half of the full story or one-half of the facts developed during the execution of their contract.

In economics, or according to an acceptance of a contract, A is at first a creditor having a "credit" with B relating to delivery of specific merchandise. A therefore has a right conferred upon him to demand delivery of such merchandise; and any failure or refusal on the part of B to comply with the terms and conditions of such contract, gives A the right to an action at law against B.

B at first is a debtor having obligated himself by his acceptance of A's order to deliver merchandise of a specific kind and character within a certain time or times.

The first step in this commercial relationship as established economically in and by their contract (legally) is that

A is a creditor whose credit relates to merchandise.

B is a debtor whose debt relates to the same merchandise.

The right of A to receive merchandise from B, and the duty of B to deliver such merchandise as per contract, constitutes the first step which must be taken by both before the remaining step is possible.

Upon delivery of the merchandise by B, and its acceptance by A, the first step has been taken, and the credit of A has been satisfied; for instead of credit (the right to demand) he now has merchandise, and the debt of B has been automatically discharged; and out of this partial performance of the contract, a new or final relationship arises which at this time refers to a money payment as follows:

A is now a debtor whose debt relates to a certain amount of money.

B is now a creditor whose credit relates to the same amount of money.

It follows from this that the parties to every contract during their reciprocal performances pass through both stages of being each respectively a debtor and creditor, and vice versa.

There is as much difference between credit and a debt in any phase of a contract as there is between the east and the west, for it takes at least two different persons in order to establish each reciprocal relationship of debtor and creditor.

In a contract of this kind the obligations of one, are the very opposite to those of the other.

One agrees to part with merchandise; he is therefore a debtor.

Upon delivery of such merchandise he thereupon becomes a creditor, and not before that time; he is thereupon entitled to demand payment according to agreement.

The other has at first a right to demand delivery of merchandise as ordered; he is therefore a creditor.

Upon receipt and acceptance of such merchandise he thereupon becomes a debtor, and not before that; and he is accordingly obligated to make payment as agreed.

Credit, no matter at whatever step or stage of a contract it may exist, or to whom of the parties thereto it attaches, or how it arises or whatever it refers to (merchandise, labor, money, etc.), such credit always consists of a right conferred upon its claimant to demand a full discharge of that liability which another assumed under and pursuant to the terms and conditions of a contract.

In the absence of cash the basis on which A can buy and get merchandise from B, is that A must be able and willing to assume a debt. The debt of A must be considered by B as a risk which B can safely take as security under the prevailing business rules and conditions.

A is able to get the merchandise of B only upon the basis of a debt—upon A's promise to pay at some future time.

There are only two methods or forms of buying merchandise:

One is to buy and pay cash, the other is to buy and owe for it—be in debt.

To say that goods are bought "on credit" is to introduce a third form of buying which economic science will not tolerate because no contract of purchase can provide for such or other conditions; therefore no facts can arise justifying a use of the expression "on credit."

Cash and credit in their economic use are classified as resources. Cash may here be considered as a concrete resource, whereas credit can only be an abstract one, for the reason that such consists only of a legal right to demand, and this demand may be for merchandise or anything else as well as cash.

Whenever merchandise is bought there immediately arises the legal obligation (a debt) to pay for it; and if this debt is paid upon delivery of goods, we call that a cash sale. The mere fact that the buyer does not pay upon delivery but promises to do so in thirty or sixty days does not change or alter the fact of debt. Such debt is simply prolonged from a few seconds as in the case of a cash sale, to thirty or sixty days according to agreement.

The privilege of extending this debt from a few seconds to a longer time is embodied in the contract made to that effect. It is a purchase based upon a debt or upon the extension to thirty or sixty days from that shortest kind of a debt which arises in every cash sale.

A purchase on credit is according to economics an utter impossibility because credit cannot be made to mean also a debt. A purchase based on a debt is the only converse of a purchase made for cash. I repeat a debt and that only can be the converse of a purchase made for cash even as there are only two forces in operation in nature wherein one is positive and the converse thereof is the negative.

There are no other forces, signs or characters in use or in operation; it is either one or the other. Each has a definite use or value so that it is not possible to have one assume also the role of another.

It is only by using the word credit in a sense where debt is really intended—in short making credit mean the same thing as a debt which justifies the popular expression of "on credit."

The public in their common or commercial parlance with reference to purchases make no distinction between debt and credit; and by their constant use of the word credit in the sense that it represents a debt, have accustomed themselves to consider such use as popular harmony when in fact such constitutes a scientific discord.

In common and commercial parlance, it is customary to say that A buys on credit and at the same time consider him a debtor. To stop right here and carefully consider this popular view, will serve to point out a great inconsistency.

In the first place remember that a credit belongs exclusively to a creditor, and that a debt always relates to a debtor.

This is so exceedingly fundamental that no exceptions or even doubts are permissible. If, therefore, A buys anything he must buy it either on the cash he now has or that cash which he expects to have in the future. His right or qualifications for buying relate to himself and not to anyone else. The interval between his promise to pay and the actual payment makes him a debtor and his promise constitutes the debt. So far as A is concerned this purchase depends upon himself—upon his own ability either to pay cash or in the absence of such, upon his promise to pay, thereby becoming a debtor. A cannot buy on the strength of a right which B may have or acquire by means of an agreement with A. The right of B to demand payment is by no means the same as the duty of A based on his promise to pay even though both agree on the specific merchandise which is to exchange hands. A cannot purchase upon a right to receive which belongs ex-

clusively to B. A must buy upon his duty to give. To say A buys on credit is to wrongfully use the right of B—the credit of B.

Legally, economically or contractually or according to the facts there can be no such use made of the word credit as to mean the same thing as debt. When, therefore, in common parlance the word credit in some instances is used where debt is the proper word because the latter expresses the facts; and in other instances the word credit is used rightfully to represent a demand of its creditor—it should not be surprising to the scientists that there is a great misunderstanding and confusion in evidence with reference to the word credit.

A large number of books treating on economics fail to contain this most important and generally perplexing topic of credit which relates to exchanges of labor and commodities for which only promises of payments are given maturing at different periods in the future.

However, some writers have ventured entering into this field, and from a few of the books which are accessible I am presenting the fruits of their labor.

There can be but one definition of the word credit, and such must express its economic, its contractual and therefore its legal sense and value.

In the following citations it will be observed that their authors in defining the word "credit," have in fact defined merely the word "debt:—"

Money and Banking 1914 by John T. Holdsworth, Ph.D.,
Dean of the School of Economics and Prof. of Finance, University of Pittsburgh.

Page 98—"In short, credit is a promise to pay money."

Political Economy 1892 by Chas. S. Devas, Examiner in
Political Economy at the Royal University of Ireland. Author
of Ground Work in Economics.

Page 283—"But first, what is credit? Putting aside the vague, popular and wide meaning of the term, let us use it in the strict and narrow sense to mean agreed postponement of payments in currency."

Principles of Economics 1913 Henry E. Seager.

Page 341—"Credit, or a promise to pay at a future time for a valuable consideration received in the present is probably as old as the practice of exchange."

....."This is now so universal that little or no exaggeration is involved in defining credit as 'A promise to pay.'"

Principles of Economics 1908 by Edwin R. A. Seligman,
L.L. McVicker, Prof. of Political Economy, Columbia University.

Page 519—"Credit thus virtually becomes a contract for the future delivery of money, or a short sale of money, and credit is thus best discussed in connection with money."

In instances where textwriters have attempted to define credit "more broadly" (as they call it), these have in fact stated the two elements of the contract out of which credit arises; in other words, they have defined that particular kind of a contract which embraces credit, but have by no means defined "credit." Credit is only one-half of the contract whereas the debt, duty or obligation constitutes the other.

Money and Banking 1916 by William A. Scott, Prof. of Political Economy in the University of Wisconsin.

Page 92—"An exchange transaction in which one person parts with goods or valuables on condition of receiving a return for them in the future."

Money and Currency 1905 by Joseph F. Johnson, Prof. of Political Economy in N. Y. University and Dean of the School of Commerce.

Page 4—"Broadly defined, credit is the power to get goods in exchange by giving a promise or contract to deliver an equivalent at some future time."

"The student, however, must never lose sight of the relationship between credit and money. Credit and money are not two different things: Credit indeed is not a thing at all, but merely the name given to a common and important use of money."

Mr. Johnson states that "credit and money are not two different things." According to that statement credit and money are the same things. Then he goes on to say that "credit indeed is not a thing at all." If, therefore, credit is not a thing at all, then money is likewise not a thing at all, and both "credit and money are not two different things;" both are not things at all, according to his logic.

The Value of Money 1917 by B. M. Anderson, Jr., Ph.D., Asst. Prof. of Economics, Harvard University.

Page 459—"Definition at the beginning of a study is frequently a fetter, rather than an aid to thought."

Page 461—".....Is credit capital? Is an increase in credit an increase in values? The last two of these questions imply that we have a definition of credit."

It would have been most interesting to have had Mr. Anderson give us the definition of credit, or at least to have favored us with the "implication" so that we might have some idea about his conception of credit.

Unfortunately I am myself unable to reconcile any implications which might arise from the two questions asked, with the definition of credit conceived by me.

In contrast with Mr. Anderson's conception of credit by "implication," I am going to present an excerpt taken from the book of Mr. Simon Newcomb:

Principles of Political Economy 1896 by Simon Newcomb, Ph.D., LL.D., Prof. of Mathematics U. S. Navy; Prof. Johns-Hopkins University.

Page 52—"The right held by the owner of credit is that of requiring from some other person or owner at a future time the payment of a designated sum of money."

But the right possessed by the creditor is apparently neither the ownership of anything which comes under our definition of wealth, nor that of any material object.

The right to demand money from another party is not the same thing as the ownership of money."

I am going to answer Mr. Anderson's two questions with implications to be drawn from two questions which I am here presenting:

Is a man who is engaged to be married, a married man? Is the right to become married at some future time the same as being already married? There has been many a slip 'twixt the cup and the lip; and many engagements were broken either voluntarily or by death which never resulted in mar-

riage. In short, the right to demand something is like birds in the bushes (they may fly away) while the birds in the cage or in the hand constitute a concrete asset—capital.

An Introduction to Political Economy 1901 by Richard T. Ely, Prof. of Political Economy and Director of the School of Economics and Political Science in the University of Wisconsin.

Page 194—"Prof. Knies has defined credit as merely a commercial transaction between two parties in which the service performed or the value rendered by the one falls in the present, and the counter service or counter value of the other in the future."

But this definition seems to err on the side, by neglecting the element of confidence which enters into credit transactions.

Mr. Ely's criticism of Knies' definition of "credit" presents a very loose and exceedingly popular conception of credit as distinguished from every economic or legal credit which in fact has a definite place and function in that contract out of which it arises.

Confidence is an element needed in all dealings and doings among men whether these be merely moral, legal or contractual, and therefore forms no greater part in a contract embracing credit than in any other contract or even in a moral obligation. All moral obligations rest entirely on confidence.

CREDIT CONTINUED.

The topic of "credit" as used in common and popular parlance deserves much more consideration than that accorded in the preceding pages; and for that reason I am continuing it in an endeavor to present it more fully by employing different methods or illustrations; in other words, presenting it from different angles in order that a better view of the whole topic may be obtained.

To buy goods on "credit" (debt) is a popular expression—not an economic or scientific one. The word credit is in fact used in the place and stead of debt.

To buy goods for cash, is to get the goods and own them.

To buy goods and not pay for them at the time, is to get the goods and own them, but owe the purchase price for them, be in debt. Such constitutes a purchase on a debt, not on credit.

The "debt" is the basis and foundation upon which goods can be bought with the payment deferred.

The very first inquiry made by B, a wholesaler when A, a retailer, who is a total stranger, seeks to purchase goods on a "promise to pay later" is directed toward A demanding of him a statement of how much he owns (resources) and what and whom he owes (liabilities).

The purpose of this statement is to ascertain therefrom whether A has enough property or capital which would justify its further incumbrance; in other words, is it possible, accord-

ing to the prevailing business rules, for A to assume another debt without endangering his (A's) business? A must, therefore, be prepared to show that he can safely assume a debt and discharge it promptly when due before B will ever consent to let his own goods pass into the hands of A. B is only willing to part with his goods after he has found A fully capable of assuming a debt which latter constitutes an encumbrance upon his entire possessions excluding such as are by law exempt.

The requirements demanded of A relate entirely to his ability of entering into debt. It is a question of debt primarily, and B, fully satisfied that A may safely jeopardize his business to the extent of such debt, B is thereupon willing to part with his goods. It is not on the credit of A, but upon the debt which A may safely assume, which forms the legal and moral consideration for the purchase of goods by A. It is a purchase (based) on a debt and not a purchase on a credit.

There are only two ways in which title to goods can be obtained: One is by paying cash, satisfying a mutual exchange; whereas the other, by a promise to pay cash at some future time—purchasing on debt—owing a debt.

In the last named instance goods are bought on the "standard of debt" not "on credit."

In popular parlance we say that to buy goods on credit is to be in debt; in that case credit is synonymous with debt. In economics, or according to the true facts, to buy goods on debt is to be in debt. When, therefore, textwriters have stated that "credit is a promise to pay" these have recognized the fact that the purchase of goods in exchange for a promise to pay, is to be "in debt." Yet these have used the popular expression of credit to convey the idea of debt.

If credit is a promise to pay, then what is a debt? Surely debt and credit are not one and the same thing.

To buy goods for cash is to get the goods. To buy goods and not pay for them at the time is to get goods and owe for them—be in debt. The debt takes the place of cash. The debt is the consideration upon which goods are purchased just as cash is the consideration upon which goods are bought. There is, however, as much difference between these two considerations as there is between daylight and darkness. Darkness is merely the absence of light. Financial daylight or cash satisfies the cash seller. Financial darkness satisfies the seller if in the ordinary and due course of business he finds it possible for the buyer to emerge within a certain time from his financial darkness into financial daylight.

Cash represents a positive quantity used to effect exchanges. A debt represents a negative quantity also capable

of effecting exchanges. Cash effects exchanges free from any obligations. A debt effects exchanges requiring a full discharge of its obligation according to the terms and conditions thereof.

Exchanges are therefore possible by two different and opposing means, whereof cash in the one instance is given in satisfaction while in the other instance a promise to pay is given, a debt is assumed.

In mathematics we have plus quantities and we have also minus quantities; and the one is the very opposite of the other. So that it makes a vast difference in the result whether we are working with plus quantities or whether our operations are confined to negative quantities.

The principle involved in mathematics applies with equal force to the principles employed in industrial relations. We are either dealing on a plus or cash or financial daylight basis, or dealing on a minus or debt or financial darkness basis.

A credit belongs to its creditor just as a debt belongs to its debtor. Nevertheless when A purchased and received goods from B upon a promise to pay at some future time—the credit of B consists of the right to demand from A the payment of his debt at a proper time. The credit of B is not a promise to pay; on the contrary, it is a right to demand payment. The debt of A is his promise to pay money to B. The purchase of merchandise is based entirely on the debt. Merchandise is therefore not purchased on credit but on debt. The consideration of the purchase rests entirely upon a debt which the debtor owes, while the creditor possesses the right to demand or enforce payment of that debt.

There is only one element of the contract remaining unfulfilled with reference to both credit and debt whenever the merchandise of B is delivered to A, the debtor; and that element consists of the debt; so that according to the contract—according to law, according to the facts, and finally, according to science or economics—"merchandise" is not and cannot be bought on credit but is bought on debt—on the basis of a debt—on the standard of a debt.

Again, credit belongs exclusively to the creditor.

Debt belongs exclusively to the debtor.

Therefore a debtor has no right in law or in fact to use the word "credit" belonging exclusively to his creditor. By appropriating to his own use he is thereby making the word "credit" stand in the place of and to answer also for the word "debt."

Such an unwarranted use of the word credit is sure to create great confusion. It is not possible to play both hot and cold when in and by its nature and operation it can be but one of these. In common parlance with reference to pur-

chases, credit is both credit and debt, but in law and under every contract it is only one thing, the legal power to demand—the legal right to receive.

Again, in science, credit must have a definite place and meaning. It cannot mean one thing at one time and at another be something entirely different, in view of the fact that credit in every instance arises out of a contract, and confers a right to demand something of another which that other has agreed to furnish according to the terms of a certain contract.

A merchant who has "sold" goods on credit, has a right conferred upon him to demand something of his debtor.

Surely it ought to seem illogical to say that the purchaser has bought on "credit," when in fact he is the debtor.

It is not possible to do both "buy and sell" on credit.

If it is right to sell "on credit" (which it is), then it must be wrong to buy on credit. The relationship between debtor and creditor is established between the buyer and the seller; whereby the seller is the creditor, therefore the buyer is the debtor.

The creditor's sale is based upon his demand; he is therefore a creditor. The debtor's purchase is based upon his debt; he is therefore a debtor.

Custom has made this erroneous use of the word credit seem and sound like pure harmony; and even economists have been misled by this apparent "harmonious discord," and these have therefore failed to discover the error in and by the wrongful use of the word credit when applied to purchases.

A purchaser must be able to buy in his own right, and this right is based upon his own ability to assume a debt. He cannot buy on the right of the seller who sells on credit.

It certainly would not be right to say that a seller sells on a debt when in fact he sells on credit. If the seller sold on debt then he himself would be a debtor, be in debt, all of which is physically impossible. For the same reason it is wrong to say that a buyer purchases his goods on credit when in fact he buys on his debt, on a debt.

The seller when a creditor, sells on a right to demand.

The buyer when a debtor buys on a (promise to pay) debt.

Therefore goods sold on a right to demand payment are sold "ON CREDIT."

Therefore goods bought on a promise to pay, are bought "ON DEBT."

I am, however, much pleased to state that there are men other than textwriters—men who do not claim to be economists—men who have not only grasped the economic value of credit, and what it really is, but defined the word credit correctly at least in principle.

Their definition and conception of credit was formulated while engaged in the practical fields of life where credit to them was not an abstract thing of theory or imagination but where it was in evidence as a concrete fact. These men have distinguished themselves as true philosophers in that particular, upon whose judgment and wisdom it is safer to rely than on statements and writings consisting chiefly of theories about credit conceived in the minds of progenitors and carefully conserved by copious repetitions, none of which are in true accord with the economic or contractual properties of credit. I refer the reader to the following:

Cyclopedia of Law and Procedure, Vol. II.

Page 1191—"In legal parlance, and in the sense in which it is used in the constitution, chooses in action, things incorporeal, 'consisting in right of one person to demand and recover from another, a sum of money or other things in possession.' "

It is the judge on the bench who in the actual discharge of his duties has seen, viewed, watched, weighed, measured, diagnosed, DEFINED "credit," as few teachers and text-writers have ever done.

ANOTHER POPULAR MISUSE OF THE WORD CREDIT.

The word credit is oftentimes improperly used and generally confused with "qualifications for incumbrances" (ability to assume a debt), upon which money may be borrowed or a purchase may be based; thus: Where a municipality, pursuant to statutes and ordinances, has a right to incumber its taxable wealth as evidenced by unsold bonds for the purpose of getting cash—it is sometimes stated that such municipality has a credit. As a matter of fact all it has is the power of issuing bonds (evidences of indebtedness) up to a definite limit which qualifies such municipality to assume a debt.

**"To have cash, or to be qualified to borrow cash
are two essentially different facts."**

To be qualified or entitled to borrow cash, requires no contract.

To obtain cash requires a contract. It is the same with a merchant who may possess every qualification for borrowing; but such qualifications amount to nothing unless he attempts to make use of them; and in order to make use of them he must enter into a contract whereby he assumes a debt.

In common parlance it is said of this merchant that he has a credit when in fact he has nothing other than qualifications to enter into debt.

In common parlance it is stated that a municipality has a credit when as a matter of fact all it possesses is qualifications to assume a debt.

There would be just as much sense and propriety in calling every bachelor (duly qualified to marry) a husband, as there is in applying the term credit to those who possess qualifications to borrow money or buy goods on a promise to pay.

To be a bachelor requires no contract.

To be a husband requires a marriage contract.

To be entitled to borrow requires no contract.

To be a debtor requires a contract.

Only a creditor can have a credit.

The only instance that a municipality can have credit, is when such municipality has sold its bonds but has not collected its money.

SELL ON CREDIT.

The use of the word credit in its relation to a sale is correct both in popular and scientific conception.

The seller has only two methods of transferring title to his merchandise:

One is based upon an immediate demand for cash (cash sale).

The other is based upon a right to demand cash at a later time (sale upon credit).

To say B sold to A on credit is therefore perfectly correct and proper, for such gives B a right to "demand" payment. But a right to demand money is not the same thing as a "duty" to pay. A cannot buy upon the credit of B. A must buy upon the basis of his promise to pay, upon the basis of his debt; whereas B can sell upon credit, upon the basis which gives him a right to demand payment of a debt.

SATISFACTION IN EXCHANGE.

Money, whether composed of or based upon a standard of value, or whether consisting of or based upon the standard of debt, is nevertheless used for effecting exchanges between persons.

The public see no distinction between money which is a circulating asset and that other which consists of a circulating liability; for such public take both at face value in complete satisfaction (exchanges) for debts.

Money based on a standard of value constitutes "concrete" money, whereas other forms thereof, such as for example Circulating Notes, may be considered "abstract" money—real money not yet in existence—but in its place we

have a promise and an abundance of confidence and hope that some time in the future such abstract money will be replaced with concrete.

In fact this confidence is so strong and this hope is so great that unhesitatingly our government acts as surety—promising sound money to take the place of abstract money although not a single official knows when or how such will be accomplished.

Money (concrete or abstract) given in exchange for something else is held to be a full satisfaction, and considered a “concrete satisfaction.”

Debt (a promise to pay) is merely an “abstract” satisfaction specifying when such abstract satisfaction will be turned into or replaced by a concrete satisfaction.

And so credit (consisting of a right to demand), belongs in the realm of “abstract” satisfaction, whether such credit relates to merchandise or whether it relates to money.

B's right to payment for goods sold on a promise to pay constitutes an abstract satisfaction (also an abstract resource), whereas payment thereof takes it out of that class of satisfaction by becoming a concrete one (concrete resource).

It might be said that all business transactions between and among people where money is the only means or medium of exchange, constitutes their commerce upon a “concrete” or positive or plus basis, whereas the other basis operating upon debts or promises to pay, places their commerce in the abstract or negative or minus realm.

In short, to operate on a cash basis is dealing with concrete facts; to deal otherwise is embracing probabilities (abstract facts)—is taking chances—is speculating—is gambling.

To gamble is to lose eventually—therefore let us awaken to the full realization of those horrors which lie in the wake of a persistent gambling in national or business dealings. Let us consecrate our time and energy to a full and complete consideration of the science of Political Economy, such as has never before been undertaken.

SUMMARY.

ECONOMIC ERRORS.

This is the credit age.
This is the age to get credit.

A has great credit.
To buy goods on “credit”
Credit-money
Credit a purchasing power.

ECONOMIC FACTS.

This is the age of debt, debtor age.
This is the age to offer and assume
debts in exchange for anything of
value.

A has ability to assume great debts.
To buy goods on “debt.”
Debt-money, circulating liability.
Debt (ability to assume a debt) has
purchasing power.

The whole history of humanity bears evidence that as a general rule no mistakes of vital importance have been discovered until the 11th hour when the inevitable horrors accompanying a threatening destruction created an awakening; and only in the 12th hour, as a man grasping after straw to save himself, "were changes made" correcting such mistakes.

A new era in economics is at hand. The Labor Certificates will be found to be the pivotal point upon which all industrial relations will swing gradually from their extreme limits of individual ownership to the other extreme of full and complete national ownership of everything of value. In this swing from one extreme to the other extreme, all customs, all rules and regulations appertaining to the present system will be gradually swept aside and discarded only to be replaced by the very simplest customs, the simplest rules, and the simplest regulations; so simple that all will understand, and therefore confusion and misunderstanding will find no place of abode either in the thoughts or lives of men.

No matter what economic changes an evolution may require either during or after its transition from individual to national ownership, nevertheless the operation of the economic principle of credit and debt will remain.

In the one instance credit will be in operation on the smallest scale possible, and in the simplest manner obtainable. Such will consist only of the demand of and by employees of the government for their wages earned between the intervals of payment, whereof the nation acting through its political agencies will become the debtor to its employees until such debt is discharged by the payment of wages due them.

The employees while at work will each be building up credit; and the nation correspondingly thereby becoming in debt.

On payday the governmental agents will deliver the necessary mediums of exchange (Labor Certificates) "certifying" that labor has been performed for the nation; and these certificates will enable its possessor to effect exchanges for whatever may be needed, for which the nation is indebted to him.

In its final analysis and application "credit and debt" will be in operation on the smallest scale and be limited entirely to the government and the employees toiling for the nation.

There will be no relationship of debtor and creditor arising between vendor (the government) and vendee (individuals) in the transfer of commodities—using the common parlance all dealings will be on a "cash basis."

In another instance credit and debt will manifest themselves on the largest scale possible with every nation as evidenced by industrial relations of each between and among foreign nations.

It is therefore not only most important, but also absolutely necessary that we begin now in the 11th hour to investigate and analyze those means (CONTRACTS) whereby industrial relations are and have been maintained involving the creation of debt and credit and the relationship of debtor and creditor.

I fully realize that in common parlance the use of the word "credit" sounds sweeter, more pleasing, but more camouflaging than the word "debt" even though the latter expresses the truth and fact.

To buy goods on "debt or even on time" are expressions which do not seem dignified enough for our foolish people in this age of civilization.

For those who do not like the truth, and who consider qualifications for assuming debts, an asset or capital, or wealth—I am going to offer for their approval a new expression which will at all times not only convey the true facts with reference to debt, but at the same time satisfy all those writers who claim that "qualifications for borrowing" (qualified to assume a debt) is in a sense "capital or wealth."

I suggest that the public substitute the expression of "BLUE SKY CAPITAL," for the popular expression "credit."

I make this suggestion for two reasons: First, because a debt is a promise to pay at some future time. The future always lies in the far off blue sky. Secondly, because credit is considered by many as "capital," so that in and by this substitution I am at least satisfying science, and also those writers who mistake the ability to assume a debt, to be also "capital."

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